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GRAMM-RUDMAN-HOLLINGS: THE IMPACT ON THE ELDERLY

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

WASHINGTON, DC

FEBRUARY 21, 1986

Serial No. 99-15

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GRAMM-RUDMAN-HOLLINGS: THE IMPACT ON THE ELDERLY

FRIDAY, FEBRUARY 21, 1986

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 10:30 a.m. in room SD-628, Dirksen Senate Office Building, Hon. John Heinz (chairman) presiding.

Present: Senators Heinz, Bingaman, Chiles, Burdick, Wilson, Evans, Dodd, Warner, and Hawkins.

Staff present: Stephen R. McConnell, staff director; Robin Kropf, chief clerk; Isabelle Claxton, communications director; Michael Tierney, professional staff; Brian W. Lindberg, professional staff; Terri Kay Parker, general counsel; Diane Lifsey, minority staff director; Jane Jeter, minority professional staff; Chris Jennings, minority professional staff; Bill Benson, minority professional staff; Kimberly Kasberg, hearing clerk; Diane Linskey, staff assistant; Laura Erbs, graduate fellow; and Dan Tuite, printing assistant.

OPENING STATEMENT BY SENATOR JOHN HEINZ, CHAIRMAN

Chairman HEINZ. This hearing of the Special Committee on Aging will come to order.

At the outset, I would like to thank all the witnesses for their cooperation. This hearing was originally scheduled to begin at 9:30. A conflict developed with the Health Subcommittee of the Finance Committee, on which I also serve. I have just returned from that subcommittee, which is dealing with a subject that this committee has been deeply involved with, namely the success of the Prospective Payment System—the new method of reimbursing hospitals for Medicare costs under the so-called "DRG's."

I see Bart Fleming from the Health Care Financing Administration nodding knowledgeably. I had to participate, at least for the first hour, in that hearing, and I thank all the witnesses for their understanding.

Because I do anticipate that there will be other members arriving shortly, and because we have a large number of witnesses, and because we are starting about 1 hour late, I would appreciate it if witnesses could keep their testimony to 3, rather than 5 minutes. If you feel you have to take 1 additional minute or 2, or 3, I cannot fault you, but as a courtesy to others, do what you can to assist if you would, please.

I am also advised that Mr. Knapp may have some time problems, so I am going to ask him to testify first. Mr. Knapp, if you are able to stay for questions afterwards, that would be appreciated. Your schedule may not allow you because of the shift in the time of the hearing to do so, so if you have to leave, I understand the time bind you are in. If your colleagues at the witness table can keep their remarks short, you may be able to stay. So, whatever you have to do, we understand.

I have an opening statement that I would like to make. We are here on February 21. In just a few days, March 1, that day will go down in history as the day Congress pushed the Gramm-Rudman-Hollings button and officially automated the deficit reduction process. With assembly line precision, Federal program after Federal program will move across the bill's buzz saw for a neat 4.3-percent shave.

Automation revolutionized America's work force during the Industrial Revolution. It greatly enhanced this Nation's industrial potential. But I for one do not believe that the policy, which produced top-quality cars and widgets is going to work for public policy in balancing a $950 billion budget in a fair and reasonable manner.

The March 1 cuts will come because Congress simply could not accept another budget stalemate and the crippling burden of a $200 billion-plus deficit.

This committee and the Congress as a whole must ensure that the March 1 cuts serve their purpose, which is simply this: To stimulate a fair and reasonable budget agreement between the Congress, both Houses, and the President before any further automated cuts take place in fiscal 1987.

As chairman of the Committee on Aging, I am concerned that Gramm-Rudman is something of a wolf in sheep's clothing when it comes to programs serving this country's senior citizens.

Now, on the one hand, the good news is that Social Security escapes unscathed, at least for the most part, that is true. It is also true that Medicare cuts are limited. Equally true, however, is that the programs subject to sequestration cover virtually the entire spectrum of Government services for seniors, ranging from housing, nutrition, energy assistance, to legal services, health research, and employment.

Sequestration in 1986 totals $11.7 billion. Cuts in retirement COLA's account for $1 billion of this amount. Cuts in defense outlays take up $5.35 billion. Another $1.12 billion comes from domestic programs that serve the elderly. Thus, of the cuts from non-defense programs fully one-third come from programs serving, in whole or in part, the elderly.

For many older Americans, these reductions will hit not once, or even twice, but again and again, chipping away at the very programs they depend on for daily living. Hundreds of thousands may find that as a result of Gramm-Rudman, they can no longer maintain the homes they live in, no longer receive critical food supplements, and no longer have access to services and basic transportation.

Thousands more, such as retirees receiving military, government, or railroad retirement pensions, have had their 1986 cost-of-living increases canceled.

In addition, the agencies—and you are here from those agencies—which administer these and other programs have suffered cuts in their administrative budgets. As part of our task today, we hope to determine whether your agencies can continue the efficient delivery of services and income payments upon which so many Americans depend.

So our primary task today is to determine the exact effects of the 1986 Gramm-Rudman cuts on programs serving older Americans. We also hope to gain some insight into the impact of further cuts, should these become necessary in fiscal 1987.

Other questions before the committee include the extent of an agency's discretion in implementing reductions in their administrative budgets. Where many activities are funded under a single budget account, do agencies have discretion to terminate one activity in order to save others? Where a single program involves several components of spending, must all components be reduced equally? Most importantly, what would be the impact of these and future cuts on beneficiaries?

Obviously, we have a full morning of witnesses. I look forward to their testimony.

I want to recognize Senator Bingaman of New Mexico, and Senator, if you have an opening statement, we would be pleased to hear from you.

STATEMENT BY SENATOR JEFF BINGAMAN

Senator BINGAMAN. Thank you, Mr. Chairman.

Let me just commend you and the ranking minority member, Senator Glenn, for holding this hearing. I understand Senator Glenn could not be here because of a commitment in Ohio.

I am interested in the general issue as to what the effect of Gramm-Rudman is on various programs, what the expected effect for the next several years is in these programs, and I will be getting into some specific issues as we go through the testimony.

I do have a statement I would like to put in the record, if I could.

Chairman HEINZ. Without objection, your entire statement will be made a part of the record, Senator Bingaman.

[The prepared statement of Senator Bingaman follows:]

PREPARED STATEMENT BY SENATOR JEFF BINGAMAN

Mr. Chairman, I wish to commend you and the ranking minority member, Senator John Glenn, for holding this hearing today. Unfortunately, Senator Glenn could not be here because of his prior commitments in Ohio—most notably his announcement to run for re-election. I wish him well.

As I am sure we are all aware, the Gramm-Rudman-Hollings deficit reduction legislation has caused great uncertainty in the Congress and in the nation. In the final analysis, I voted against it because of the inequities it is likely to cause. I agree strongly however, with the overall goal of reduced deficit spending. But that is neither here nor there, because at a minimum the law's automatic mechanism will trigger spending cuts on March 1. Therefore we need to understand its implications for fiscal year 1986.

According to a recently published Committee print, overall fiscal year 1986 sequestration under Gramm-Rudman-Hollings will reduce federal spending for the elderly. Because Social Security is exempted from sequestration, the general perception is that senior citizens are protected. The facts dispute this:

The 1986, 3.1 percent COLA increase scheduled for civil service and military retirement has already been canceled by Gramm-Rudman-Hollings.

Medicare will suffer a loss of $300 million in program funds, not achievable by benefit cuts, on top of the existing freeze on hospital and physician reimbursement.

Housing and nutrition programs, low-income energy assistance, senior centers, and other aging services will lose 4.3 percent of their total unobligated funds for the fiscal year.

Administrative expenses for Social Security, SSI, Medicare, Medicaid, Food Stamps, and Veterans programs will be cut by 4.3 percent as well.

The impact in New Mexico, and in other states, echoes the national figures and puts a grim face on these numbers. In preparation for this hearing, I asked the New Mexico State Agency on Aging to estimate how my State will fare in fiscal year 1986.

The figures are not encouraging. According to Rita Maes, New Mexico State Agency Director, at the state administrative level staff travel and outreach will be restricted. This is critical because New Mexico already receives insufficient Title III administrative funds to support its Advocacy Assistance and Staff Development activities. In the past the Administration on Aging provided a "supplement" to the state. It is now questionable whether this will continue.

Under the Title V Employment Program, administrative costs would be reduced and four part-time positions eliminated. These four workers serve communities which would otherwise not be served. This impacts not only on already under-served areas, but on the workers themselves who, on the average, live in a rural community, are female between the ages of 60 and 69, have less than an eighth grade education, and live on less than $270 per month.

And finally, New Mexico decided to impose the 4.3 percent reduction on a proportionate basis to allow the local programs to decide what should be cut. Rita Maes, the State Director, best explains the situation:

"There are indirect impacts that will be realized. With reduced services, current efforts to identify those persons with the greatest need will stop or be curtailed, therefore they will not be served. There is the possibility that some individuals who stop receiving services will be unable to maintain an independent life in the community and may have to enter an institution. Local programs that wish to continue to provide the same level of services will need to obtain resources from other sources. In some cases participants will be asked to increase their donations for services. We know that this tends to decrease participation by those individuals most in need of services. The programs may approach local governments for additional funds, but the local government is also facing drastic revenue shortfalls.

"Preliminary information from local programs about how they will deal with the reductions focuses on the elimination of staff and the reduction of services, including meals, transportation, and other services.

"What is of most concern to us is that information about proposed future cuts may frighten local programs into eliminating their programs rather than face the pressures of step-by-step reduction of services."

Most of our state agencies report that adequate adjustments at the administrative level can be made to meet Gramm-Rudman-Hollings targets for fiscal year 1986. From what I've heard from our State Director, however, I'm not persuaded that the cuts are only restricted to reductions in paper and paper clips. The matter requires more attention and I welcome the witness testimony today, which I hope will give us a glimmer of understanding as to what is happening.

Clearly, the facts and figures we have already seen point to serious dislocations. It appears that certain harm will result from this first round of cuts on March 1 and the already called-for cuts proposed in the President's fiscal year 1987 budget. We all agree some reductions are unavoidable. But we must ask ourselves if these cuts are the wisest and most effective that can be made.

Thank you, Mr. Chairman.

THE IMPACT OF GRAMM-RUDMAN-HOLLINGS ON PROGRAMS SERVING OLDER AMERICANS: FISCAL YEAR 1986

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

FEBRUARY 1986

Serial No. 99-H

This document has been printed for information purposes. It does not offer findings or recommendations by this committee.

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INTRODUCTION

The Congress is initiating in 1986 a tough new process to control Federal budget deficits in the form of the Balanced Budget and Emergency Deficit Control Act, commonly called the Gramm-Rudman-Hollings Act. The new law requires the enactment of budget legislation to achieve specified deficit targets each year, leading to a zero deficit by 1991. If Congress fails to enact the required deficit-reducing legislation in time, the new budget process triggers an automatic "sequestration" of funds to meet the deficit target. The first sequestration under "Gramm-Rudman," totaling $11.7 billion for fiscal year 1986, is scheduled to take effect March 1, 1986.

This report provides an analysis of the impact of the first "Gramm-Rudman" sequestration on Federal programs serving the elderly. Although the first sequestration will require relatively small reductions in spending, it demonstrates how the automatic cuts are made and offers a preview of future cuts. When fiscal 1987 begins in October, spending cuts estimated at $37 billion will be required if Congress fails to enact deficit-reducing legislation in the interim.

Gramm-Rudman itself provides protection from sequestration for a large portion of Federal spending on the elderly. Most of the benefits paid by income security and means-tested programs—Social Security, Supplemental Security Income (SSI), Veteran's benefits, Railroad Retirement Tier I, Food Stamps, and Medicaid—are totally exempt from sequestration, although the cost of administering these programs is not. Other income security benefits, principally Civil Service and Military Retirement, are subject to sequestration only to the extent of the annual cost-of-living-adjustment (COLA). Health care programs (other than Medicaid)—Medicare, Veterans' health care, and community health centers—would be subject to limited cuts of 1 percent in excess of a freeze on inflation adjustments in fiscal 1986 and 2 percent in subsequent years. All other programs serving the elderly, such as housing, nutrition, and social services, are subject to across-the-board reductions required to meet the deficit targets.

Gramm-Rudman requires that a total of $11.7 billion be sequestered in fiscal 1986. In applying sequestration to programs, the total amount of required deficit reduction (net of the savings from permitted COLA cuts) is split equally between defense and nondefense spending, and spending reductions are applied uniformly to the sequesterable amounts in each budget account. The savings realized from COLA cuts are credited equally to the required defense and nondefense reductions. The remaining amount needed to achieve the target for this year is met by cutting the unobligated

balances in nondefense accounts by 4.3 percent and in defense accounts by 4.9 percent.

Overall, fiscal 1986 sequestration will force a number of reductions in Federal spending on the elderly:

—The 1986, 3.1 percent COLA increase scheduled for civil service and military retirement has already been canceled by Gramm-Rudman.

—Medicare will suffer a reduction of $300 million in program funds, not achievable through benefit reductions, on top of the existing freeze on hospital and physician reimbursement.

—Housing and nutrition programs, low-income energy assistance, senior centers, and other aging services will lose 4.3 percent of their total unobligated funds for the fiscal year.

—Administrative expenses for Social Security, SSI, Medicare, Medicaid, Food Stamps, and Veterans programs will be reduced by 4.3 percent as well.

Most agencies report that they can achieve savings through program and administrative adjustments. Should sequestration occur for fiscal year 1987, however, the consequences for programs providing essential services to older Americans will be far more severe. Under the President's fiscal 1987 budget assumptions, Gramm-Rudman will require a $37.2 billion reduction in Federal spending. If Congress fails to enact alternative deficit-reducing legislation before October, sequestration would require additional cutbacks more than three times the size of those put into effect in March. For programs and agencies already reduced by fiscal 1986 sequestration, fiscal 1987 sequestration would seriously impair the ability to deliver quality health care, housing, nutrition, and social services to the elderly, and to administer fundamental income support programs such as Social Security.

Although fiscal 1986 sequestration will take effect on March 1, Gramm-Rudman faces an uncertain future. On February 7, a Federal District Court found Gramm-Rudman unconstitutional on the grounds that it vests executive power in the Comptroller General, an official who is removable by Congress. Pending appeal to the Supreme Court, the President's fiscal 1986 sequestration order will remain in effect. Should the Supreme Court uphold the district court, however, that order would be overturned. If this occurs, under a fallback plan, Congress would have to pass a joint resolution to reinstate fiscal 1986 sequestration and initiate sequestration in later years.

Relatively little about sequestration and its effect on deficit-reduction and Federal spending is certain. Nonetheless, this report is intended to provide a preliminary view of the reductions in Federal spending and changes in priorities that will result from this new budget process, if it operates as expected. The budget and sequestration amounts presented in this report are for entire budget accounts covering programs that serve the elderly. In many cases only a portion of the spending in the account actually benefits persons 65 years of age or older. Where possible the text indicates the proportion of elderly persons in the recipient or client population in each program.

FISCAL 1986 SEQUESTRATION

[In millions of dollars]

	Fiscal year 1986 total [1]	Sequester	
		Baseline [2]	Sequestered amount [3]
OUTLAYS			
Health:			
Medicare pt. A	49,271	1,031.0	264.4
Medicare pt. B	25,244	1,001.5	110.0
Medicaid	24,440	0	0
Veterans medical care	9,267	787.7	103.9
National Institute on Aging	137	75.7	3.2
National Cancer Institute	1,217	617.1	26.5
National Heart, Lung and Blood Institute	860	378.3	16.3
National Institute of Arthritis, Diabetes, and Digestive and Kidney Diseases	573	257.6	11.0
Food and Drug Administration	417	365.7	15.7
Total	111,426	4,514.6	551.0
Income security:			
OASI trust fund	180,346	1,504.5	64.7
DI trust fund	20,306	464.2	20.0
SSI Program	10,197	719.0	30.9
Black lung pt. B	1,002	6.5	.3
Black lung pt. C	950	154.0	6.6
Civil service retirement fund	24,577	586.0	536.7
Military retirement fund	18,008	409.1	409.1
Veterans compensation	10,409	0	0
Veterans pensions	3,818	0	0
VA general operating expenses	752	675.3	29.0
Railroad Social Security	5,950	29.2	1.3
Rail industry pension	2,248	43.7	19.1
Windfall subsidy	390	390.0	16.7
Pension Benefit Guaranty Corporation	33	28.3	1.2
Food stamps	11,799	27.0	1.2
Commodity Supplemental Food Program	1,582	2.0	.9
Food Donations Program	185	159.4	6.9
Temporary Emergency Food Assistance Program	52	34.0	1.5
Low-Income Home Energy Assistance Program	2,100	1,890.0	81.3
Total	294,704	7,123.1	1,227.4
Housing:			
202 housing	556	3.9	.2
Congregate services	6	0	0
Public housing	1,426	0	0
Community development grants	3,575	62.5	2.7
Subsidized housing	10,530	9.5	0.4
FmHA rural housing insurance fund	3,053	1,145.8	49.3
DOE weatherization	487	111.3	4.8
Total	19,633	1,333.0	57.4
Services:			
Human development services (including OAA)	1,977	1,134.8	48.8
UMTA discretionary grants	800	58.7	2.5
UMTA formula grants	1,445	763.8	32.8
Legal Services Corporation	312	226.0	11.4
ACTION	164	91.6	3.9
Community service employment for older Americans	326	65.1	2.8
Training and employment services	3,841	94.9	4.1
Equal Employment Opportunity Commission	163	141.5	6.1
Social services block grants	2,705	2,538.0	109.1
Community services block grants	368	252.9	10.9

VIII

FISCAL 1986 SEQUESTRATION—Continued

[In millions of dollars]

	Fiscal year 1986 total [1]	Sequester	
		Baseline [2]	Sequestered amount [3]
Total	12,101	5,367.3	232.4
Total of all programs	437,864	18,338.0	2,068.2

[1] Figures represent outlays for fiscal year 1986 prior to sequestration under assumptions employed by the Office of Management and Budget and the Congressional Budget Office in the joint sequestration report issued Jan. 15, 1986.
[2] Baseline figures represent total funds available for sequestration in fiscal year 1986.
[3] Figures represent funds actually sequestered in fiscal year 1986.

NEW MEXICO STATEWIDE IMPACT OF GRAMM-RUDMAN ON AGING PROGRAMS
ADMINISTERED BY THE STATE AGENCY ON AGING

SERVICE	PERSONS SERVED THRU 9/85	4.35% REDUC. PERSONS SERVED	DIFFERENCE PERSONS SERVED
Information & Referral	30,036	28,744	(1,292)
Outreach	22,567	21,597	(970)
Transportation	20,721	19,830	(891)
Homemaker	1,646	1,575	(71)
Home Health	1,053	1,008	(45)
Home Visiting/Telphone Reassurance	6,459	6,181	(278)
Chore	1,217	1,165	(52)
Legal	2,792	2,672	(120)
Escort	3,033	2,903	(130)
Residential Repair	1,303	1,247	(56)
Health	9,923	9,496	(427)
Congregate Meals	24,317	23,271	(1,046)
Home Delivered Meals	5,403	5,171	(232)
Services to Residents in Care	1,201	1,149	(52)
	131,671	126,010	(5,661)

COUNTY BY COUNTY IMPACT OF GRAMM-RUDMAN ON AGING PROGRAMS
BERNALILLO COUNTY

SERVICE	PERSONS SERVED THRU 9/85	4.3% REDUC. PERSONS SERVED	DIFFERENCE PERSONS SERVED
Information & Referral	7,234	6,923	(311)
Outreach	2,499	2,392	(107)
Transportation	948	907	(41)
Homemaker	124	119	(5)
Home Health	0	0	0
Home Visiting/Telphone Reassurance	0	0	0
Chore	0	0	0
Legal	1,340	1,282	(58)
Escort	0	0	0
Residential Repair	798	764	(34)
Health	0	0	0
Congregate Meals	2,966	2,838	(128)
Home Delivered Meals	240	230	(10)
Services to Residents in Care	564	540	(24)
	16,713	15,995	(718)

COLFAX, MORA, SAN MIGUEL, TAOS, SANTA FE, LOS ALAMOS, RIO ARRIBA, SANDOVAL, VALENCIA, SAN JUAN, MCKINLEY AND CIBOLA COUNTIES

SERVICE	PERSONS SERVED THRU 9/85	4.3% REDUC. PERSONS SERVED	DIFFERENCE PERSONS SERVED
Information & Referral	9,344	8,942	(402)
Outreach	9,918	9,492	(426)
Transportation	14,127	13,520	(607)
Homemaker	864	827	(37)
Home Health	98	94	(4)
Home Visiting/Telephone Reassurance	3,342	3,198	(144)
Chore	200	191	(9)
Legal	855	818	(37)
Escort	1,652	1,581	(71)
Residential Repair	83	79	(4)
Health	6,306	6,035	(271)
Congregate Meals	7,541	7,217	(324)
Home Delivered Meals	1,532	1,466	(66)
Services to Residents in Care	420	402	(18)
	56,282	53,862	(2,420)

UNION, HARDING, QUAY, CURRY, GUADALUPE, DE BACA, LINCOLN, CHAVES, LEA AND EDDY COUNTIES

SERVICE	PERSONS SERVED THRU 9/85	4.3% REDUC. PERSONS SERVED	DIFFERENCE PERSONS SERVED
Information & Referral	6,479	6,200	(279)
Outreach	8,146	7,796	(350)
Transportation	3,050	2,919	(131)
Homemaker	196	188	(8)
Home Health	886	848	(38)
Home Visiting/Telephone Reassurance	2,225	2,129	(96)
Chore	701	671	(30)
Legal	407	389	(18)
Escort	902	863	(39)
Residential Repair	57	55	(2)
Health	2,610	2,498	(112)
Congregate Meals	5,704	5,459	(245)
Home Delivered Meals	2,543	2,434	(109)
Services to Residents in Care	166	159	(7)
	34,072	32,608	(1,464)

CATRON, SOCORRO, GRANT, SIERRA, HIDALGO, DONA ANA, LUNA AND OTERO COUNTIES

SERVICE	PERSONS SERVED THRU 9/85	4.3% REDUC. PERSONS SERVED	DIFFERENCE PERSONS SERVED
Information & Referral	6,979	6,679	(300)
Outreach	2,004	1,918	(86)
Transportation	2,596	2,484	(112)
Homemaker	462	442	(20)
Home Health	69	66	(3)
Home Visiting/Telephone Reassurance	892	854	(38)
Chore	316	302	(14)
Legal	190	182	(8)
Escort	479	458	(21)
Residential Repair	365	349	(16)
Health	1,007	964	(43)
Congregate Meals	8,106	7,757	(349)
Home Delivered Meals	1,088	1,041	(47)
Services to Residents in Care	51	49	(2)
	24,604	23,545	(1,059)

Before hearing from the Acting Under Secretary of HUD, John J. Knapp, I am going to insert into the record the statements of three members of the committee who could not be with us today, Senators John Glenn, Chuck Grassley, and Larry Pressler.

[The statements of Senators Glenn, Grassley, and Pressler follow:]

PREPARED STATEMENT OF SENATOR JOHN GLENN

As senior Democratic member of the Senate Special Committee on Aging, I am pleased that the Committee is holding today's hearing to examine how certain federal agencies—with responsibility for the welfare of our Nation's elderly and disabled citizens—plan to handle spending cuts under the new Gramm-Rudman balanced-budget law. This law sets annual deficit reduction targets which must be met over the next five years in order to balance the federal budget by 1991.

The Gramm-Rudman-Hollings law requires $11.7 billion in federal budget reductions in Fiscal Year (FY) 1986. If the Congress does not meet this target with the enactment of legislation by the end of next week, the new law triggers across-the-board spending cuts from all elements of the budget. The exceptions to this process are several public aid programs; Social Security cash benefits; and finally, Medicare and a few other health programs which have annual limits on the amount by which their spending can be automatically cut. Medicare's so-called "buffer of protection" is that program outlays to providers are limited to a one percent cut this year and two percent thereafter.

A major part of this year's savings is already being achieved through one of the law's provisions which freezes civilian, military and railroad retirement cost-of-living adjustments (COLAs). As a long-time supporter of these retirement programs, I believe this freeze is most unfair. Lowering the deficit requires sacrifice and hard choices between a number of worthy programs and objectives. Civilian and military retirees are not responsible for our economic difficulties and they should not be singled out as scapegoats.

The other part of this year's savings will begin Saturday, March 1, when—in the absence of enacted legislative savings—the automatic spending cuts or "sequestering" of funds will begin. I have many questions about how this process will work. Will Social Security's administrative savings be accomplished through chopping the number of administrative law judges (ALJs) or paring down beneficiary services? Will processing time take longer or will beneficiaries wait longer for assistance in field offices and on the telephone? Will essential research at the National Institute on Aging and the other National Institutes of Health be severely compromised?

I have questions about Medicare beneficiaries' well-being under the new law. The Gramm-Rudman Act implies that Medicare's savings should come out of the pockets of health care providers not beneficiaries. Specifically, it states that premium and deductible amounts cannot be increased automatically to meet the deficit reduction targets. However, if we cut government payment rates to doctors and almost simultaneously allow the Medicare physician fee freeze to expire on March 15, I do not believe it is unreasonable to assume that we will see cost-shifting to patients.

Moreover, this Committee has held a number of hearings about the quality of care under Medicare's new Prospective Payment System (PPS) by diagnosis-related groups (DRGs). We decided that Peer Review Organizations (PROs) should have more money to perform their duties as quality-of-care watchdogs under PPS. Under Gramm-Rudman, these agencies will have their budgets cut and we may very well learn about greater numbers of quality-of-care horror stories as an offshoot of these cuts.

In my view, those who state that Medicare beneficiaries are protected under this plan are either misinformed or are being purposely misleading. And while I want to squeeze the fat out of our budget as much as anyone, it is simply wrong to imply that we can take this approach to deficit reduction without negatively impacting those elderly who are trying to survive on low, fixed incomes.

I strongly opposed enactment of the Gramm-Rudman budget-balancing law. In my view, it represents a tremendous abdication of legislative responsibility on the part of both the Congress and the President. I have many questions about how these across-the-board spending cuts will impact issues of national concern beyond our elderly citizens. For example, when we cut money for federal prisons does this mean that we are going to have to let people out or crowd them up? When we slash money for child support enforcement, doesn't it come out in the wash somewhere? Does it mean more female-headed households on some form of public support?

I could go on and cite a number of other issues outside the scope of this Committee's jurisdiction. I believe that this "gimmick" budget approach may very well be unconstitutional. Earlier this month, a federal judicial panel did strike down the automatic, across-the-board spending cuts mandated by the law. The ruling was stayed, however, meaning that the law is still in effect until the Supreme Court hears an appeal later this year.

While I will be interested in reviewing the testimony of witnesses at today's hearing, it is my hope that we won't be holding another hearing later on this year to ask today's witnesses to explain how they plan to swallow the next round of sequestered spending. It is my sincere desire that once members understand the harm the Gramm-Rudman automatic spending cuts will inflict, we will be able to work together in a bipartisan fashion to produce a congressionally-passed budget that would negate the triggering of further across-the-board cuts. I believe that today's witnesses can make an important contribution in this regard.

Prepared Statement by Senator Charles E. Grassley

Mr. Chairman, I commend you for calling this hearing today into the effects of the Gramm-Rudman-Hollings Act on the elderly.

For several years now, I have offered a budget freeze proposal designed to impose some spending discipline on the Congress. I have offered such an across-the-board freeze because it seems to me to be the fairest way to get a handle on our continuing deficit problem. I will offer such a proposal again this year as we go forward in our budget deliberations here in the Senate. Control over these deficits seems to me to be one of the highest priority matters facing the Congress and the country. In my own State of Iowa, the exaggerated value of the dollar and very high interest rates have had a devastating effect on our farm economy. Many of us think that these are related to our massive deficits.

The Gramm-Rudman-Hollings Act has had the undeniable effect of forcing the Congress to deal with these budget deficits. The Gramm-Rudman-Hollings program is going to put additional pressure on the Congress to develop a budget resolution and spending bills that bring our deficit down to the levels targeted in that act. It seems to me that this is the key point; that is, that the automatic sequestration process is not inevitable. If we do our job here in the Congress, we will not have sequestration.

The hearing today will help us better understand the consequences for programs which benefit the elderly of the automatic sequestration process. Therefore, it seems to me that what we learn from this hearing will help us in the very important job of getting a congressional budget resolution and spending bills which reduce our deficit to the targeted amount.

Prepared Statement of Senator Larry Pressler

I commend Chairman Heinz for holding this hearing on the impact of the Gramm-Rudman-Hollings Balanced Budget Act on the elderly. Today, we are focusing on the effects this law will have on elderly programs in fiscal year 1986. Aside from the few programs which are exempt from cuts, and those in the special rules category, 4.3 percent of funding must be cut from elderly programs in fiscal year 1986. After looking over the testimony being presented here today, and meeting with many concerned individuals from my State, the consensus seems to be that a 4.3-percent cut is not unbearable. All of the agencies and departments are making a good faith effort to reduce waste and cut corners without substantially reducing benefits. This is truly the spirit of fiscal restraint.

However, there are a few observations I would like to make concerning Gramm-Rudman-Hollings and its impact on aging programs:

(1) If Gramm-Rudman survives the constitutionality test it is now facing, fiscal year 1987 cuts could be as high as 25 percent in many programs. This is cause for concern. In fact, the Gramm-Rudman impact in FY 87 will be fatal for many of the aging programs. Mr. Chairman, it is my hope that we will hold a similar hearing to examine priorities and alternatives for FY 1987.

(2) I am certainly pleased that under Gramm-Rudman-Hollings, Social Security benefits are exempt from budget cuts. I have supported and cosponsored legislation removing Social Security from the unified budget. The Social Security trust funds are made up of payroll taxes to be used only for benefit payment. However, retired Federal and military employees are not so lucky. They have already felt the effect of Gramm-Rudman when their 3.1 percent cost of living allowance was cancelled. Is

it right for some retirees' incomes to be subject to reductions and not others? I would appreciate hearing from some of our witnesses today on this subject.

(3) One bright spot I would like to mention is Alzheimers disease research funding. I recently sent a letter to Health and Human Services Secretary Otis Bowen, requesting that Alzheimers disease funding remain a top priority in the department. Senators Heinz, Glenn, and Wilson, of this committee, along with six other Senators, cosigned this letter. I thank my colleagues on the committee for their assistance in this. I am pleased to say that funding for Alzheimers research will remain a top priority, and FY 1986 level funding will be maintained. I commend Franklin Williams who is with us today, and Secretary Bowen for their continued commitment to the war on Alzheimers disease.

Chairman HEINZ. Let me ask Mr. Knapp if he would please proceed as our first witness.

STATEMENT OF JOHN J. KNAPP, ACTING UNDERSECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Mr. KNAPP. Thank you, Mr. Chairman.

In the housing assistance area, when we speak of reductions, we are not talking about reducing the number of people we serve or the level of the subsidy provided. Instead, we are talking about the rate of growth of the numbers served.

Our housing assistance programs now serve 4.2 million households, an increase of 1 million since 1981, and we expect to reach 4.4 million in 1991.

Deficit reduction targets are proposed to be reached in the housing assistance programs not by reducing the number of households served or increasing the costs that these households themselves must bear, but by changing the nature of the programs themselves, a continuation of a change that has been underway since 1981, moving away from subsidization of construction to direct affordability assistance to low-income households.

Besides the obvious per-unit cost differences, we believe that this thrust is supported by what is going on in the housing market, where multifamily starts and completions are at their highest level in a decade; rental vacancies are increasing, with the highest vacancy rate being for units renting at between $200 and $249 per month; and with the rate at which new apartments are being absorbed by the market at the slowest level ever recorded.

My statement details the effects of the fiscal year 1986 mandated cuts across the housing programs. They are not significant—a few units shaved off each program.

You asked also about allocation of reductions in the administrative budgets. This is where the across-the-board concept makes the least sense and therefore forces other choices, because program funding level reductions of, say, 5 percent do not necessarily, or even likely, lead to workload reductions of that amount or any amount.

Allocation of administrative cuts is largely nondiscretionary, directed as it is by the "program, project, or activity" direction of the statute, but within those constraints, we are trying to the maximum extent feasible to let the allocation be guided by actual and projected workload requirements. And this will lead, I believe, to a favorable tilt in that allocation toward the housing staffs in the field offices.

As for fiscal year 1987, we have not attempted in my statement to predict the impact of further across-the-board reductions. For one thing, no one knows at this point what reduction percentage factor to use. That depends not only on projections, but on congressional and executive actions taken in the forthcoming months.

More importantly, that is not what we would propose. The President's budget presents a different plan beginning in 1986 that is designed to achieve the deficit reduction target not only for 1986 and 1987, but for the outyears, 1991 and beyond.

Adoption of the President's program will permit the continuation through 1991 and beyond of a program of adding 50,000 households each year, probably roughly half of them elderly, to the number of those already receiving housing assistance.

We believe that this is the only choice that can be made which will both permit us to provide that level of necessary housing assistance to the needy, including the elderly, and will permit the executive and the Congress together to make good on the deficit reduction commitment made in Gramm-Rudman-Hollings.

Mr. Chairman, I think that finishes what I would like to say at this point, and I will remain for the questions.

Chairman HEINZ. Thank you very much, Mr. Knapp.

[The prepared statement of Mr. Knapp follows:]

STATEMENT OF

John J. Knapp
Acting Under Secretary
U.S. Department of Housing and
Urban Development

Mr. Chairman and Members of the Committee: On behalf of Secretary Pierce and HUD, I am pleased to respond to your request for information regarding the application of Gramm-Rudman-Hollings to HUD programs that serve the elderly, either exclusively or as part of their general constituency.

You have asked that we describe, first, the specific allocation of the automatic FY 1986 reductions among programs; second, the allocation of FY 1986 reductions within the Department's administrative budgets; and, third, the likely effects of further automatic reductions if the sequestration process must again occur in FY 1987.

Allocation of the mandated budget reductions among programs is, as the Committee is aware, nondiscretionary. Gramm-Rudman-Hollings requires that the reductions be applied equally to each "program, project, or activity," as that term is defined by the Appropriations Subcommittees. In our case, the Subcommittees have defined those terms as referring to the most specific level of budget items referred to in the appropriations act, the accompanying reports, and in our budget justification documents.

Table I, attached to this statement, shows the application of the 4.3 percent Gramm-Rudman-Hollings reductions to the several housing subsidy programs that are included within the single appropriation account entitled "Annual Contributions for Assisted Housing." This account includes all of our funding for public housing development, for Section 8 subsidies, and for rental rehabilitation grants and housing development grants. With regard to Section 202 housing for the elderly and

handicapped, this account includes the Section 8 rental subsidy payments but does not include the direct loans.

As you can see in Table I, the 4.3 percent "sequestration" is applied to each line in the assisted housing account. To highlight some of the effects:

- o public housing new construction is reduced by 197 units -- from 5,000 units to 4,803 units;

- o Indian housing new construction is reduced by 79 units -- from 2,000 units to 1,921 units;

- o Section 202, new construction for elderly and handicapped is reduced by 472 units -- from 12,000 units to 11,528 units;

- o vouchers are reduced by 1,451 units -- from 36,900 units to 35,449 units, and Section 8 Existing Housing Certificates are reduced by 1,277 units -- from 32,480 units to 31,203 units; and

- o Section 8 mod rehab is reduced by 396 units -- from 10,056 units to 9,660 units.

Similar reductions are made in other programs. The limitation on direct loans for Section 202 new construction is reduced in an amount that is consistent with the subsidy authority reduction already referred to. Budget authority for

new contracts under the congregate services demonstration is reduced by $115 thousand from $2.67 million to $2.55 million.

I want to emphasize at this point that, for the most part, these reductions apply to additions to our current program activities. They are not reductions in the number of persons now being served by the programs or in the amounts of subsidy being received by such persons. They are reductions in the rate of growth of the programs. All of the units that I mentioned are what we refer to as "incremental units" - that is, incremental additions to the numbers of units already being subsidized. The single exception to this rule is in the Congregate Services demonstration, where the reduction will affect our ability to extend existing contracts beyond their original expirations.

In the administrative area, allocation of the mandated reductions is also largely nondiscretionary. Following the legislative direction requiring equal allocation across each "program, project, or activity," the 4.3 percent reduction was to be taken from each object classification of expenditure as well as from each program area, both for Headquarters and the Field. Extension of the across-the-board concept to administrative budgets creates distinct difficulties, because a funding level reduction of a given percent in a program does not necessarily, or even usually, produce commensurate workload reduction. Also, some discrete expenditures, such as space rental costs, cannot be cut at all, so that reductions must be tilted more heavily towards other types of expenditures. Because of these factors, we are considering a reprogramming request in the administrative

budget area. It is likely that such a request would propose to provide more staff for Housing Field operations than a totally neutral, blind allocation would allow. This is due primarily to the current surge in FHA single-family insurance applications, but allocations of Housing staff assignments within Field offices will be made by Regional Administrators and other Field managers based on current and projected workload requirements. While I cannot yet provide details, the short of this is to say that, to the maximum extent practicable, allocations of reduction in the administrative budgets will be guided by program workload considerations, and will be adjusted from time to time as necessary on the same basis.

You asked about the likely effect of further automatic cuts in FY 1987. That, of course, would not be a desirable occurrence. The Administration is committed to achieving the deficit reduction targets that are mandated by Gramm-Rudman-Hollings, but through a process of reasoned, deliberate, although difficult, choices made by the two political branches, not by a choice-avoiding surrender to mindless computer runs. The President's Budget presents such a reasoned alternative route toward the deficit reduction objectives that Congress and the President already have agreed upon.

Deficit reduction targets cannot be met on a one-year-at-a-time basis. 1991's outlays are not determined solely in 1991 or even in 1990; they are determined largely in 1986 and 1987. Nowhere is this more true than in the HUD programs, based, as they are, on one-time commitments to long-term expenditures. For

example, the 4.3 percent sequestrations of HUD programs in FY 1986 that I described totalled $668 million in budget authority for the Department as a whole. The outlay saving in FY 1986 that is produced by that reduction is only $33 million. However, that same one-time reduction in budget authority also produces a $105 million outlay saving in FY 1987, and further savings of $125 million in 1988, $38 million in 1989, $36 million in 1990, and $32 million in 1991. While the 1986 reduction, therefore, does make a contribution toward the outlay savings that will be required in later years, its contribution is not nearly enough. It hardly could be, because by hypothesis, the FY 86 reductions were not calculated with 1991 in mind, only 1986.

The President's Budget, therefore, proposes to begin the assault on out-year outlays now, in Fiscal 1986. A series of rescissions and deferrals of FY 1986 budget authority is proposed. Rescissions totalling $5.129 billion in budget authority, together with other budget proposals having an initial impact in Fiscal 1986 and 1987, will produce outlay savings from current services of about $1.3 billion in FY 1986, $2.7 billion in FY 1987, and $6.4 billion in 1991. All budget authority proposed to be deferred in 1986 will be used in 1987, including $2.3 billion to fund 50,000 Vouchers. The deferral proposals will reduce the amount of new budget authority required in FY 1987 to $5.5 billion, but budget authority will rise again to nearly $10 billion in 1988.

The President's budget plan for the future of HUD programs, which is outlined fully in the FY 1986 proposals, presents hard

choices because it proposes program terminations, not simply shaving. It is not a program that was originated overnight, however. It continues the policy direction that we embarked upon in 1981 of providing housing affordability assistance directly to needy families through vouchers, rather than through subsidization of developers through new construction programs. A major step in this direction was taken by Congress and the Administration together in 1983 with the repeal of Section 8 new construction and substantial rehabilitation authority. What has occurred in the market place since then, whether or not there is a cause-and-effect relationship, supports an extension of that approach.

We know, for example, that sub-stantard rental units are declining. We know that multifamily construction from 1983 through 1985 was at the highest level since 1973, and that the completion of unsubsidized apartments rose to 314,000 units in 1984 -- the highest level since 1974. In 1984, the rate at which new apartments were absorbed by the market fell to the lowest level recorded since we began collecting such data in 1969. Rental vacancies continued to increase, reaching 6.8 percent in the third quarter of 1985, the highest rate in eight years. This rate was highest, not for luxury units, but for units renting at between $200 and $249 per month.

We propose, therefore, to terminate all further funding for subsidizing new construction or rehabilitation, while continuing to add to the number of households receiving housing affordability assistance at the rate of 50,000 families per

year. This new assistance will be provided by vouchers. HUD housing assistance now reaches 4.2 million households - a million more than were served in 1981 - and we expect to reach 4.4 million by 1991.

Table II, attached to this statement, shows the effect of the budget proposals for FY 1986 on the programs included in the same Assisted Housing account covered in Table I. The first column in Table II is identical to the second column in Table I - that is, the currently appropriated authority, after sequestration. Table III shows the budget proposal for FY 1987, consisting principally of 50,000 incremental vouchers.

I have presented a picture of the entire HUD budget for housing assistance for low-income households. A large portion of the households assisted, of course, are elderly. They are the principal beneficiary of the Section 202 program, for which we propose termination. We do not believe, however, that the shelter needs of the elderly require continued subsidization of new construction. As I indicated above, significant additions to the housing stock are continuing to occur despite the discontinuance of HUD construction subsidies. Our experience with the Section 8 Existing Housing Certificate program as well as the housing allowance experiments that led to evolution of the voucher program demonstrate that the elderly can be well-served by the voucher program. As you know, many elderly households choose to remain in their homes and receive affordability assistance "in place" under the Certificate program, and we expect that to be equally the case under the voucher program.

While we do not deny for a moment that halting the growth of some programs altogether will be painful, we do not believe that the burden will fall disproportionately upon the elderly.

What is of overriding importance is that the President's proposal submitted this year is a complete blueprint for the contribution from HUD programs toward meeting the deficit reduction targets, not only in FY 1986 and 1987 but also in 1991. Adoption of the President's program will permit the continuation, through 1991 and beyond, of a program of adding 50,000 households each year, probably roughly half of them elderly, to the number of those already receiving housing assistance. We believe that this is the only choice that can be made which will both permit us to provide that level of necessary housing assistance to the needy, including the elderly, and will permit the Executive and the Congress together to make good on the deficit reduction commitment made in Gramm-Rudman-Hollings.

Table I

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING
FY 1986 - GROSS RESERVATIONS

--Operating Plan and Operating Plan Adjusted for Sequestration--

	Operating Plan		Adjusted for Sequestration	
	Units	Budget Authority	Units	Budget Authority
Carryover	NA	$918,498,386	NA	$918,498,386
Recaptures	NA	517,525,000	NA	517,525,000
Rescission of Recaptures	NA	(517,525,000)	NA	(517,525,000)
New Authority	NA	9,965,607,781	NA	9,965,607,781
Sequestration	NA	...	NA	(428,321,134)
Total Available	NA	10,884,106,167		10,455,585,033
Public Housing				
Public Housing	5,000	978,900,000	4,803	940,409,632
Indian Housing	2,000	327,600,000	1,921	314,718,768
Amendments	NA	300,000,000	NA	288,204,000
Lease Adjustments	NA	19,200,000	NA	18,445,056
Modernization	NA	1,500,000,000	NA	1,441,020,000
Subtotal, Public Housing	7,000	3,125,700,000	6,724	3,002,797,476
Section 8				
Section 202:				
Section 202	12,000	1,616,640,000	11,528	1,553,073,715
Section 202 amendments	NA	240,000,000	NA	230,563,200
Subtotal, Section 202	12,000	1,856,640,000	11,528	1,783,636,915
Housing Vouchers:				
Free-standing	36,900	695,377,817	35,449	668,035,561
Section 8 Opt Outs	1,000	18,845,000	961	18,104,015
Public Housing Demolitions	2,500	47,112,500	2,402	45,260,037
Voucher PHA Fees	NA	89,889,683	NA	86,355,221
Subtotal, Vouchers	40,400	851,225,000	38,812	817,754,834
Existing/Mod Rehab:				
Certificates	32,480	2,468,160,000	31,203	2,371,111,949
Moderate Rehab	10,056	922,500,000	9,660	886,227,300
Subtotal,	42,536	3,390,660,000	40,863	3,257,339,249

Existing - Project-based:				
Loan Management.....	3,000	90,100,000	4,803	86,337,268
Property Disposition.....	4,775	444,073,000	4,587	426,613,971
Subtotal, ...	9,775	534,173,000	9,390	513,171,239
Conversions-Section 23.....	925	46,744,873	889	44,906,867
Amendments:				
New/Sub. Rehab.	NA	46,000,000	NA	44,191,280
Existing Housing.....	NA	488,351,295	NA	469,149,322
Project Reserve/Loan Management	NA	338,061,667 a/	NA	324,763,001
Moderate Rehab.....	NA	36,548,330	NA	35,111,250
Property Disposition	NA	20,000,000	NA	19,213,600
Subtotal, Amendments.....	NA	928,961,292	NA	892,428,453
Subtotal, Section 8.....	105,636	7,608,406,167	101,482	7,309,237,557
Total, Public Housing and Sec.8.	112,636	10,734,106,167	108,206	10,312,033,033
Section 17 Development	NA	75,000,000	NA	71,775,000
Section 17 Rehabilitation	NA	75,000,000	NA	71,775,000
Total Use of Authority	NA	10,884,106,167	NA	10,455,583,033

a/ Includes $80.2 million of CA and BA for retroactive rent rebates and $40 million of contract authority and $250 million BA for reserve amendments.

Table II

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING
FY 1986 - GROSS RESERVATIONS

--Sequestered Appropriation Compared to Administration's Proposal--

	Sequestered Appropriation		Administration Proposal	
	Units	Budget Authority	Units	Budget Authority
Carryover	NA	$918,498,386	NA	$918,498,386
Recaptures	NA	517,525,000	NA	537,525,000
Rescission of Recaptures	NA	(517,525,000)	NA	(537,525,000)
New Authority	NA	9,965,607,781	NA	9,965,607,781
Proposed Deferral	NA	NA	NA	(2,300,805,360)
Proposed Rescission	NA	NA	NA	(4,413,430,643)
Sequestration	NA	(428,321,134)	NA	(428,321,134)
Total Available	NA	10,455,385,033		3,741,349,030
Public Housing				
Public Housing	4,803	940,409,652	350	80,731,140
Indian Housing	1,921	314,718,768	0	0
Amendments	NA	288,204,000	NA	200,000,000
Lease Adjustments	NA	18,443,056	NA	19,200,000
Modernization	NA	1,441,020,000	NA	458,325,000
Subtotal, Public Housing	6,724	3,002,797,476	350	758,256,140
Section 8				
Section 202:				
Section 202	11,528	1,553,073,715	100	12,810,000
Section 202 amendments	NA	230,563,200	NA	230,000,000
Subtotal, Section 202	11,528	1,783,636,915	100	242,810,000
Housing Vouchers:				
Free-standing	35,449	668,035,561	50,000	942,250,000
Section 8 Opt Outs	961	18,104,015	1,000	18,845,000
Public Housing Demolitions	2,402	45,260,037	2,500	47,112,500
Voucher PHA Fees	NA	86,355,221	NA	107,000,000
Subtotal, Vouchers	38,812	817,754,834	53,500	1,115,207,500

Existing/Mod Rehab:				
Certificates	31,203	2,371,111,949	2,300	184,462,500
Moderate Rehab	9,660	886,227,300	1,114	102,853,890
Subtotal,	40,863	3,257,339,249	3,414	287,316,390
Existing - Project-based:				
Loan Management	4,803	86,557,268	5,000	90,100,000
Property Disposition	4,587	426,613,971	4,000	372,000,000
Subtotal,	9,390	513,171,239	9,000	462,100,000
Conversions-Section 23	889	44,906,867	700	35,374,300
Amendments:				
New/Sub. Rehab.	NA	44,191,280	NA	50,000,000
Existing Housing	NA	469,149,322	NA	450,000,000
Project Reserve/Loan Management	NA	324,763,001 a/	NA	280,284,500
Moderate Rehab	NA	35,111,250	NA	40,000,000
Property Disposition	NA	19,213,600	NA	20,000,000
Subtotal, Amendments	NA	892,428,453	NA	840,284,500
Subtotal, Section 8	101,482	7,309,237,357	66,714	2,983,092,890
Total, Public Housing and Sec.8.	108,206	10,312,035,033	67,064	3,741,349,030
Section 17 Development	NA	71,775,000	NA	0
Section 17 Rehabilitation	NA	71,775,000	NA	0
Total Use of Authority	NA	10,455,585,033	NA	3,741,349,030

a/ Includes $80.2 million of CA and BA for retroactive rent rebates and $40 million of contract authority and $250 million BA for reserve amendments.

Table III

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING
FY 1987 - GROSS RESERVATIONS

	Units	Cost	Contract Authority	Term	Budget Authority
Carryover	NA	NA	$353,901,072	NA	$2,300,805,360
Recaptures	NA	NA	14,400,400	NA	264,362,000
Rescission of Recaptures	NA	NA	(14,400,400)	NA	(264,362,000)
Total Available	NA		353,901,072		2,300,805,360
Public Housing					
Amendments	NA	NA	NA	1	58,900,000
Lease Adjustments	NA	NA	NA	1	16,300,000
Modernization	NA	NA	NA	1	225,000,000
Subtotal, Public Housing	0	NA	NA	NA	300,200,000
Section 8					
Section 202:					
Amendments	NA	NA	4,500,000	20	90,000,000
Housing Vouchers:					
Free-standing	50,000	3,769	188,450,000	5	942,250,000
Section 8 Opt Outs	1,000	3,769	3,769,000	5	18,845,000
Public Housing Demolitions	2,500	3,769	9,422,500	5	47,112,500
Voucher PHA Fees	NA	200	10,700,000	5	53,500,000
Subtotal, Vouchers	53,500		212,341,500		1,061,707,500
Existing - Project-based:					
Loan Management	5,000	3,604	18,020,000	5	90,100,000
Property Disposition	4,000	4,840	19,360,000	15	290,400,000
Subtotal	9,000		37,380,000		380,500,000
Amendments:					
Existing Housing	NA	NA	50,000,000	4	200,000,000
Project Reserves	NA	NA	45,679,572	5	228,397,860
Property Disposition	NA	NA	2,000,000	10	20,000,000
Moderate Rehabilitation	NA	NA	2,000,000	10	20,000,000
Subtotal, Amendments	NA	NA	99,679,572		468,397,860
Subtotal, Section 8	62,500	NA	353,901,072		2,000,605,360
Total, Public Housing and Sec. 8	62,500	NA	353,901,072		2,300,805,360

Chairman HEINZ. Dr. Williams, you represent the National Institute on Aging. We are delighted to have you back before this committee. I want to, by way of recognition, just commend you on the excellent work I think you have been doing. I know many members of the committee—perhaps all of them—share that feeling.

STATEMENT OF DR. T. FRANKLIN WILLIAMS, DIRECTOR, NATIONAL INSTITUTE ON AGING, NATIONAL INSTITUTES OF HEALTH, BETHEDSA, MD

Dr. WILLIAMS. Thank you very much, Mr. Chairman.

I appreciate the chance to testify. I might just mention that I have come from our Advisory Council meeting, where a Mrs. Dorothy Kirsten French is presenting information on her great efforts on Alzheimer disease, which her husband unfortunately suffers from.

I have submitted some written testimony which I hope you might accept for the record. I will just briefly summarize that.

Chairman HEINZ. Without objection, not only your testimony, but the testimony of all witnesses will be included in its entirety in the record.

Dr. WILLIAMS. Thank you. The National Institute on Aging, within the context of the National Institutes of Health's mission, focuses specifically on research and training related to aging and the special problems of old age. Our researchers are studying a broad range of topics relevant to this role, with the major goal of differentiating between aging and disease states and conditions common to older people which are potentially preventable or reversible.

Despite the good health and functioning which for many older people are fortunate to possess, the direct costs of major chronic disabling conditions in old age are enormous: An estimated $35 to $40 billion of direct cost per year for Alzheimer disease and at least $7 billion per year for hip fracture problems, secondary to falls and osteoporosis are just to cite two examples. Biomedical research efforts offer essentially the only hope for eliminating or decreasing the impact of these and other major problems in older people, their families, and our Nation as a whole.

The Gramm-Rudman-Hollings Act requires all Federal discretionary nondefense funds to be reduced by 4.3 percent this year. At the National Institutes of Health, this has been sequestered equally across all mechanisms and all Institutes. For the NIA budget overall, this has meant a reduction from $156.5 million as appropriated for fiscal year 1986 to $149.8 million under the sequestration.

I would like to give a few examples of how this impact is felt. The Gramm-Rudman-Hollings mandatory reductions will reduce the funds available for support of research project grants $3.9 million below the fiscal year 1986 appropriation level. It is our plan to continue to fund the same number of grants as was included in the appropriations law. This will require a downward negotiation of 5 to 10 percent on all remaining approved grants this year, since about 30 percent of our yearly grants have already been awarded.

In particular, the total reduction in the centers' line will be down from $10.4 million to $9.9 million under the Gramm-Rudman-

Hollings reductions. Ten of our 12 centers are Alzheimer disease research centers. These centers aim to bring together clinical and basic science investigators to enhance the effectiveness of Alzheimer disease research and ultimately, health care delivery, and also carry out training and information dissemination functions.

In the area of training, beyond just Alzheimer's disease——

Chairman HEINZ. Dr. Williams, just to clarify what you said, did you say that the Alzheimer's centers would be cut from between $4.4 million and $9.9 million?

Dr. WILLIAMS. No. It will be cut from $10.4 million to $9.9 million.

Chairman HEINZ. I am sorry.

Dr. WILLIAMS. It is a 4.3 cut there like everything else.

In the training area, the cuts will reduce our opportunity to award new traineeships by about 22 percent, from 45 to 35 new trainees in fiscal year 1986. This is a very important part of our program, addressing the needs for researchers and faculty leadership, and these figures will certainly not allow us to meet the goals set by the HHS Report on Training in Geriatrics and Gerontology in 1984.

The intramural area, I want to note in closing, there our reduction will be $900,000, from $20.9 million to $20 million. This affects our laboratory for neurosciences, our laboratory for molecular genetics, and such activities as the Baltimore Longitudinal Study on Aging, now 28 years old.

The reductions in all these activities, as well as our research management and support, will be achieved by a reduction in staff through attrition; curtailment of our Summer Program; reduced expenditures for equipment, supplies, and information dissemination; and a reduction in funds available for staff travel.

I might just point out that inasmuch as a large share of the intramural research costs are fixed costs, there is a necessary reduction of about 25 percent in the expenditures for the actual research procedures for supplies, equipment, and the like.

Mr. Chairman, I would like to close here and be ready for questions.

Chairman HEINZ. Thank you very much, Dr. Williams.

[The prepared statement of Dr. Williams follows:]

STATEMENT BY

T. FRANKLIN WILLIAMS, M.D.
DIRECTOR, NATIONAL INSTITUTE ON AGING

NATIONAL INSTITUTES OF HEALTH
PUBLIC HEALTH SERVICE
DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman and members of the Committee, I am Dr. T. Franklin Williams, Director of the National Institute on Aging (NIA) at the National Institutes of Health. Thank you for the opportunity to present information about the impact of the Congressionally initiated Gramm-Rudman-Hollings Act on the research and training programs of the National Institute on Aging.

The National Institutes of Health (NIH) is the principal biomedical research agency of the Federal Government. The NIH supports biomedical and behavioral research in this country and abroad, conducts research in its own laboratories, trains promising young researchers, and promotes the acquisition and distribution of medical knowledge. These research activities uncover new ways to prevent and ameliorate disease and disability, seek to lessen the enormous economic and human toll exacted from the Nation, and lead to better health care for the American people.

Within this context, the NIA focuses specifically on the elderly, those age 65 and above. The primary goal of the NIA research programs is to extend the healthy middle years of life, thereby reducing the impact of the aging process. NIA-supported researchers are studying a broad range of topics relevant to this goal. Key among these topics is the continued effort to differentiate between normal aging and those disease states and conditions common to the elderly which are potentially preventable or reversible. The Institute supports a broad spectrum of research and training aimed at

easing or eliminating the physical, psychological, and social problems which beset many older persons. Biomedical research efforts include studies on the diagnosis, etiolgy, and treatment of Alzheimer disease; the effect of immunodeficiency on health of the elderly; disorders such as incontinence; and exercise, cardiovascular health, and aging. Behavioral sciences research includes studies of cognitive and biopsychological aging and maintenance of independent and effective functioning of the elderly. The Institute also supports a strong initiative in disease prevention and health promotion.

The FY 1985 appropriation for the National Institutes of Health is $5.5 billion. Of that amount, $236.2 million, or 4.3 percent of the total, will be sequestered to help meet deficit reduction goals required by the GrammRudman-Hollings Act. The NIA share of the sequestered amount, $6.7 million will reduce NIA funding from its FY 1986 appropriated level of $156.5 million to $149.8 million.

The Gramm-Rudman-Hollings Act requires that all Federal discretionary non-defense funds be reduced by 4.3 percent. Funds at the National Institutes of Health have, therefore, been sequestered equally across all the NIH institutes, as well as at the NIH aggregrate mechanism level. NIA extramural research programs, intramural research, and the research management and support activities have all been reduced 4.3 percent. At NIA, support for such Institute priorities as Alzheimer disease and molecular genetics will be maintained at the highest level possible by reducing funding in other lower priority areas. I

have included a table at the end of my statement which outlines how the sequestration will affect specific line items in the FY 1986 NIA budget.

Funds available after sequestration will permit the support of 303 noncompeting research project grants at a level of $57.5 million compared to $60.1 million within the FY 1986 appropriation. A total of 193 new and competing renewal research project grants at $29.8 million will be funded after sequestration, compared to 193 grants at $31.1 million within the appropriation. Noncompeting research project grants will be negotiated down 4.3 percent, while competing research project grants will be negotiated down 7.8 percent. Any grant awarded prior to sequestration will not be amended during FY 1986 in order that research already begun will not be disrupted.

Twelve research centers, including ten Alzheimer Disease Research Centers (ADRCs), will be supported at a level of $9.9 million compared to $10.4 million within the appropriation. The goal of the ADRCs is to bring together clinical and basic science investigators to enhance the effectiveness of Alzheimer disease research and ultimately health care delivery. When fully developed, the centers will also train postdoctoral fellows and health professionals to conduct research on Alzheimer disease and its management; develop a model demonstration facility for training, education and treatment; and quickly transfer advances in the field of Alzheimer disease research into improved care for the Alzheimer patient.

Other research will be supported at a level of $5.9 million compared to $6.2 million within the 1986 appropriation. The reduction of $267,000 will be achieved by funding 70 rather than 71 research career awards, 11 rather than 14 grants in other research, and 5 rather than 6 minority biomedical research support awards.

After sequestration, NIA will utilize the training funds of $4.4 million to fully fund 195 noncompeting full time equivalent trainees. A total of A total of 35 competing trainees will be supported at a level of $822,000, compared with 45 trainees and $1.1 million under the FY 1986 appropriation. The NIA has two major interrelated approaches to education: (1) training of investigators to pursue the enlarging research opportunities in the field of aging and (2) preparing faculties to teach these topics to present and future health professionals who will be servicing the rapidly growing population over age 65. Faculty and investigators with special preparation in geriatrics and gerontology are in short supply and estimated to range from five to twenty-five percent of the number required. The report of the Interagency Task Force on Training in Geriatrics and Gerontology (1984) estimated 1,200 faculty and investigators will be needed by 1990. If current training programs continue at existing levels, this goal will not be met.

After sequestration, NIA will support an estimated 46 research and development contracts, including the Congressionally-mandated Alzheimer disease registry, a variety of important epidemiological studies, and contracts supporting resource materials (aging mice and

rats, and genetically marked cells, for example), at a level of $13.1 million. This compares with 48 contracts and $13.7 million contained within the appropriation.

Intramural research will be supported at a level of $20.0 million, compared with $20.9 million under the appropriation. Intramural research includes such activities as the 20-year-old Baltimore Longitudinal Study on Aging, the Laboratory of Neurosciences, the incipient Laboratory of Molecular Genetics, and intramural analysis of epidemiological data gathered in large part through extramural contracts. Research management and support will be supported at a level of $8.0 million compared with $8.4 million under the appropriation. The reductions in both these activities will be achieved by a reduction in staff through attrition; curtailment of the summer hire program; reduced expenditures for equipment, supplies, and information dissemination; and a reduction in the funds available for staff travel.

We do not anticipate any further reductions under the Gramm-Rudman-Hollings Act in FY 1986. Should additional mandatory budget reductions become necessary in FY 1986, they could be handled in several ways. Obvious possibilities for the extramural program include reduction of the number of competing awards funded in FY 1986 and further downward negotiations of average grant cost from full recommended levels. Additional reductions in the intramural research program and research management and support would be addressed through deeper cuts in expenditures for equipment and supplies;

reducing or eliminating some intramural research projects; delayed hiring of replacements for employees who resign or, in the case of temporary employees, complete their tours of duty; reduced staff fellowships and medical staff fellowship positions; and, if necessary, employee furloughs.

This concludes my prepared statement, Mr. Chairman. I will be pleased to answer any questions you may have.

Attachment A

NATIONAL INSTITUTE ON AGING

Effect of Gramm-Rudman Sequestration

	1986		
Program/Activity	Appropriation	Sequestration (-)	Available After Sequestering
Research project grants.....	$ 91,377,000	-$3,929,000	$ 87,448,000
Research centers...	10,396,000	-447,000	9,949,000
Other research.....	6,211,000	-267,000	5,944,000
Research training..	5,507,000	-237,000	5,270,000
R&D contracts.....	13,733,000	-591,000	13,142,000
Intramural research	20,915,000	-899,000	20,016,000
Research management and support.....	8,352,000	-359,000	7,993,000
Total.....	$156,491,000	-$6,729,000	$149,762,000

Chairman HEINZ. Our next witness is Bart Fleming of the Health Care Financing Administration.

Mr. Fleming.

STATEMENT OF BARTLETT S. FLEMING, ACTING DEPUTY ADMINISTRATOR, HEALTH CARE FINANCING ADMINISTRATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES, WASHINGTON, DC

Mr. FLEMING. Thank you very much, Mr. Chairman.

For my introductory remarks, let me just deal with the 1 percent reduction in Medicare benefits. I am sure you will have some questions on other aspects as well.

For 1986, the 1 percent reduction required by the Gramm-Rudman-Hollings Act for Medicare benefits payment will reduce Medicare payment obligations by a total of $370 million. That is $300 million in 1986, and $70 million in 1987, due to the lag in billing and payments.

Payments to hospitals and other providers under part A of the program will decrease by $280 million. Payments for physicians and other supplemental medical services under part B will be reduced by about $90 million.

Our fiscal intermediaries and carriers will compute the payment levels under the rules that prevail at that time and reduce them by 1 percent. Currently, both hospital payment rates and physician fees are frozen until March 14, at the fiscal year 1985 level. Consequently, when the Gramm-Rudman-Hollings legislation becomes effective on March 1, payment rates will be 1 percent below the fiscal year 1985 level, in the absence of any other legislation. Beginning March 15, our September 3, 1985, Prospective Payment System regulations will apply to hospital payments. Since these regulations also provide for a freeze, hospital payment rates will continue to be 1 percent below the 1985 level, that is, unless Congress takes action to modify them.

There would be no change in total hospital expenditures. However, the distribution of payment among hospitals would change because the regulations include a new hospital wage index and move to the third year of transition—that is, to the national rate systems—under PPS.

For physician payments beginning March 15, that is, in the absence of legislation, Medicare customary and prevailing charges would be updated and increased by the Medicare Economic Index of 3.1 percent. After applying that 1 percent Gramm-Rudman-Hollings reduction, the maximum allowed charge for physicians would increase just over 2 percent.

Most of the impact under Gramm-Rudman-Hollings reductions in Medicare benefits payments will fall on the providers. Lower hospital payments will be absorbed entirely by the hospital industry. Similarly, skilled nursing facilities, home health agencies, and other providers must incorporate these reductions into their operating budgets.

However, we do not believe that this level of payment reduction is of a magnitude to adversely affect the quality of services directed to our Medicare beneficiaries.

PRO's will continue to review in-patient hospital care to assure that admissions are necessary and appropriate, and that services meet high-quality standards. For physician claims paid on an assigned basis, which is currently over two-thirds of all of our claims, and for other part B services, the 1 percent reduction will affect only the physician or the supplier. The participating physician or supplier is prohibited from passing on additional charges to the beneficiary. Only on unassigned claims where the beneficiary is paid directly and then pays the provider would the effect of the reduction fall on that beneficiary. The reductions will have no effect on the amount of beneficiary copayments and deductible. These payments will continue to be calculated using the current rule.

Mr. Chairman, I will conclude right there, and I would be happy to answer questions.

Chairman HEINZ. Mr. Fleming, thank you very much.

[The prepared statement of Mr. Fleming follows:]

STATEMENT OF

BARTLETT S. FLEMING

ACTING DEPUTY ADMINISTRATOR

HEALTH CARE FINANCING ADMINISTRATION

I appreciate this opportunity to discuss with you today the impact of the Balanced Budget and Emergency Deficit Control Act, P.L. 99-177, better known as the Gramm-Rudman-Hollings Act. This legislation provides clear direction toward reducing the Federal deficit each year beginning in FY 1986 so that by FY 1991 the national budget will be balanced. In order to achieve this goal, the Act imposes new duties on the President, Congress, and a variety of executive and legislative agencies. I would like to briefly describe the effects of the Gramm-Rudman-Hollings provisions as they pertain to the Medicare program and to describe their potential impact on Medicare beneficiaries, providers, physicians and the administrative components of HCFA.

The GRH statute prescribes specific rules governing any reductions in the Medicare program. These rules specifically prescribe how reductions will be made and limit the effect of the reductions. Whenever sequestration occurs, each final benefit payment amount will be reduced by a specified percentage point — up to one percent on FY 1986 and up to two percent in each of the following fiscal years. HCFA expenditures for other than Medicaid or Medicare benefit payments are not protected by any special procedure or limitations in reductions and are subject to the same percentage reduction as other programs. Medicaid expenditures are exempted from any reduction under Gramm-Rudman-Hollings.

IMPACT ON MEDICARE BENEFIT PAYMENTS

For FY 1986 the one percent reduction in Medicare benefit payments will reduce Medicare payment obligations by a total of $370 million; $300 million

of which will actually accrue in 1986 and $70 million of which will accrue in 1987 due to a lag in billing and payments. Payments to hospitals and other providers under part A of the program will decrease by $280 million and payments for physicians and other supplemental medical services under part B will be reduced by about $90 million. Our fiscal intermediaries and carriers will compute the payment levels under the rules that prevail at the time and reduce them by one percent.

Currently, both hospital payment rates and physician fees are frozen until March 15 at the FY 1985 level. Consequently, when the GRH legislation becomes effective on March 1, payment rates will be one percent below the FY 1985 level, in the absence of any other legislation.

Beginning March 15, our September 3, 1985 prospective payment system (PPS) regulations will apply to hospital payments. Since these regulations also provide for a freeze, hospital payment rates would continue to be one percent below the FY 1985 level, unless Congress takes action to modify them. There would be no change in total hospital expenditures. However, the distribution of payments among hospitals would change because the regulations include a new hospital wage index and move to the third year of the transition to national rates, among other changes.

For physician payments beginning March 15, in the absence of legislation, Medicare customary and prevailing charges would be updated and increased by the Medicare Economic Index of 3.1 percent. After applying the one percent GRH reduction, the maximum allowed charge for physicians would increase over 2 percent.

Most of the impact of the GRH reductions in Medicare benefit payments will fall on providers. Lower hospital payments will be absorbed entirely by the hospital industry. Similarly, skilled nursing facilities, home health agencies, and other providers must incorporate these reductions into their operating budgets. However, we do not believe that this level of payment reduction is of a magnitude to adversely affect the quality of services delivered to Medicare beneficiaries. PROs will continue to review inpatient hospital care to assure that admissions are necessary and appropriate and that services meet high quality standards.

For physician claims paid on an assigned basis, which is currently over two-thirds of all claims, and for other part B services, the one percent reduction will affect only the physician or supplier. The physician or supplier is prohibited from passing on additional charges to the beneficiary. Only on unassigned claims where the beneficiary is paid directly and then pays the provider would the effect of the reduction fall on the beneficiary. The reductions will have no effect on the amount of beneficiary copayments and deductible. These payments will continue to be calculated using current rules.

IMPACT ON PROGRAM MANAGEMENT COSTS

As I mentioned earlier, HCFA's expenditures for program management are not protected by any special procedures and are subject to the full 4.3 percent reduction in FY 1986. However, we believe we have made prudent management decisions, establishing priorities and targeting carefully where to make reductions so that we will be able to efficiently accomplish our

tasks.

Contractor Funding

The greatest impact of the GRH reductions in HCFA program management is on the Medicare contractor budget which will be reduced by $41.4 million. This reduction will impact contractor operations primarily in the areas of claims processing, payment safeguards, and productivity investments.

For example, a reduction in funds for claims processing will result in an increase in processing time for both part A and part B claims, although all claims will continue to be reviewed with the same technical accuracy. We believe this reflects a sound management decision and is consistent with the Prompt Payment Act which requires payment to be made no earlier than 30 days. During a longer payment cycle, additional interest will accrue to the trust funds. This is also consistent with common business which generally requires payment on a 30 day cycle.

Under the category of payment safeguards, contractors will have to target where best to perform audits in order to maximize our return. Other less crucial audits will be deferred. Of course we will, in any event, continue to perform desk audits which will improve our audit targeting and resolve significant problems without delay. We must continue to audit all PPS hospitals which is necessary for complete implementation of the system.

Finally, we will initiate new ways, other than the extremely costly individual mailings, to inform beneficiaries as to how and where to obtain

information on the participating physician program. We are providing the information to senior citizen groups, Social Security District Offices as well as other beneficiary interest groups.

Let me briefly summarize the Gramm-Rudman-Hollings impact on other areas of program management and administration.

Peer Review Organizations

PRO review will continue as contracted through the first contract period affecting FY 1985-86. We believe that the reduction of $16.8 million can be accommodated without reducing the level of review conducted by each PRO. The impact is limited to reducing the amount of funds available to meet new situations as they arise during the contract period.

Administrative Costs

Despite the sequestration of $9.2 million in funds for administrative costs, we will be able to fill required personnel positions. However, we will eliminate selected management support contracts and will reduce funding for other activities such as travel and training by about 25 percent.

In addition, we will target which publications are most important for updating and issuing so that our providers, contractors, and the beneficiary community is kept informed of the policies and procedures affecting the Medicare and Medicaid programs. Publication of less important issuances will be deferred.

State Survey and Certification

A reduction of $2.2 million in the Medicare State certification program will have minimal impact. The reduction will be accommodated through a combination of program efficiencies together with slight reductions in the number of surveys of facilities that have historically shown fewer deficiency problems. These include home health agencies, end-stage renal disease facilities and laboratories.

Research and Demonstrations

For research and demonstrations, the $1.3 million GRH reduction will result in the cancellation of plans for some awards to study benefit coverage issues and the efficacy of preventive services and patient education efforts.

End Stage Renal Disease Coordinating Councils

For End Stage Renal Disease Network Coordinating Councils, $208,000 would be sequestered. This will have minimal impact and can be accomplished by reducing funds for activities such as travel and printing.

CONCLUSION

We believe that we will be able to accomplish the Health Care Financing Administration's mission under the Gramm-Rudman-Hollings reductions for FY 1986 without a serious disruption of our ongoing operations. Further, we

believe that the up to one percent reduction in benefit payments will not impose significant hardships on our beneficiaries or on the providers who furnish their health care services. We will continue our efforts to control the costs of health care in this nation, not only by complying with the Balanced Budget Act, but also in implementing the reforms necessary to make such legislation unnecessary in future years.

Chairman HEINZ. Mr. Sabatini, representing the Social Security Administration.

STATEMENT OF NELSON J. SABATINI, ACTING DEPUTY COMMISSIONER FOR MANAGEMENT AND ASSESSMENT, SOCIAL SECURITY ADMINISTRATION, BALTIMORE, MD

Mr. SABATINI. Mr. Chairman, while the benefits in the largest SSA programs are exempt from sequestering, the Gramm-Rudman-Hollings legislation will nonetheless have an effect on overall agency operations.

We do expect, however, to be able to make the required reductions while maintining the quality of our service to the public.

As you know, there is a total exemption from the automatic reduction process for Social Security, Old Age, Survivors and Disability benefits, and for Supplemental Security Income benefits. Also exempted is the administrative budget for the State agencies that assist in administering disability insurance and SSI disability benefits.

However, Federal administrative expenses for all SSA programs are subject to sequestration.

A 4.3-percent reduction in administrative resources for the Old-Age, Survivors and Disability Insurance and SSI programs amounts to a $144.4 million reduction, from $4.22 billion down to $4.08 billion.

And SSA is required to take a uniform 4.3-percent reduction in each program, project and activity. For our largest administrative budget, the legislation requires 4.3 percent reductions in three categories—the contingency reserve, the automatic data processing and telecommunications budget, and the budget for other Federal administrative expenses.

We expect to be able to meet this requirement without any reductions in force, any furloughs of employees, or any diminution of service in terms of processing times or waiting times in field offices or in payment accuracy.

Thirty million dollars of the required reduction will be obtained by maintaining full-time equivalent employment at the 1986 President's budget level; reducing overtime from 3,113 to 1,775 work-years and reducing Stay-in-School and Summer Aide Programs by approximately 50 percent for the remainder of fiscal year 1986.

In addition, reductions in the budgets for travel, training, equipment, printing and supplies will save us approximately another $30.7 million.

Black Lung benefits will be maintained at current levels: Although automatic increases in Black Lung benefits are subject to sequestering, no benefit increase is payable this year because such increases are tied to Federal pay levels which were not increased.

Low-income home energy assistance grants to the States must be reduced by $90.2 million in fiscal year 1986 from the appropriated level of $2.1 billion. This reduction will be distributed according to the allocation formula added to the Low-Income Home Energy Assistance Act by the Human Services Reauthorization Act of 1984. Under this provision, 23 States are expected to experience no re-

duction in energy assistance funds, while grants to the remaining States will decrease by varying amounts.

Overall, none of the benefits for aged persons in fiscal year 1986 will be reduced by the Gramm-Rudman-Hollings law except possibly some of those for the Low-Income Home Energy Assistance Program. Although there will be a 4.3-percent reduction in most administrative funds, we fully expect to be able to accomplish the reductions without disruptions in services to the public. We also expect that any adverse effect on SSA employees will be minimal.

By continuing to emphasize productivity gains through modernization of the claims process and other management improvements, we fully anticipate being able to maintain our high level of responsiveness to the public's needs.

With respect to fiscal year 1987, it is premature for me to speculate on how the Gramm-Rudman-Hollings legislation might affect our budget. At this time, the President's budget has just been submitted, which would meet the Gramm-Rudman-Hollings targets.

That concludes my prepared remarks.

I would be pleased to answer any questions.

Chairman HEINZ. Mr. Sabatini, thank you very much.

[The prepared statement of Mr. Sabatini follows:]

PREPARED STATEMENT OF NELSON J. SABATINI, ACTING DEPUTY COMMISSIONER OF SOCIAL SECURITY

Mr. Chairman, I am here today to discuss the fiscal year 1986 effects of the Balanced Budget and Emergency Deficit Control Act on Social Security Administration programs that serve the elderly. Although benefits in the largest SSA-administered programs are exempt from sequestering under the new law, the Gramm-Rudman-Hollings legislation will nonetheless have an effect on overall agency operations in the current year. We do expect, however, to be able to make the required reductions while maintaining the quality of our service to the public. I would like to take the next few moments to describe the areas in which we will take the reductions, the amounts of the reductions, and the likely effects.

As you know, there is a total exemption from the automatic reduction process for Social Security old-age, survivors, and disability benefits and for supplemental security income benefits. Also exempted is the administrative budget for the State agencies that assist in administering disability insurance and SSI disability benefits. However, Federal administrative expenses for all SSA programs are subject to sequestering. In addition, certain program expenditures for special benefits for disabled coal miners and for low-income home energy assistance are subject to reduction. In general, the budgetary resources for SSA programs, projects and activities that are subject to reduction must be reduced by 4.3 percent in fiscal year 1986.

OASDI AND SSI ADMINISTRATIVE EXPENSES

A 4.3 percent reduction in administrative resources for the old-age, survivors and disability insurance and SSI programs amounts to a $144.4 million reduction, from about $4.22 billion to $4.08 billion. Slightly less than one-fourth of this reduction will be in SSI administrative resources. For purposes of the Gramm-Rudman-Hollings legislation, the committees on appropriations define "program, project and activity" for those accounts subject to sequestration, and SSA is required to take a uniform 4.3 percent reduction in each program, project and activity. For our largest administrative budget (the limitation on administrative expenses), the legislation requires 4.3 percent reductions in three categories—the contingency reserve, the automatic data processing and telecommunications budget, and other Federal administrative expenses. I will elaborate a bit on each of these three areas.

First, the $6.2 million reduction in the contingency reserve, which is available to meet certain unanticipated workloads and unexpected State agency costs, is not large enough to threatep program operations and service to the public. After the reduction, $138.8 million remains to deal with contingencies. Since the traditional contingency reserve has been $50 million, we think the size of the reserve remaining is adequate for our needs. Second, for the automatic data processing and tele-

communications budget we have "no-year authority" to carry over unobligated balances from one year to the next. Thus, we believe the $12.3 million reduction in the automatic data processing and telecommunications budget will not impair the progress of the systems modernization effort, since there are more than adequate carryover funds available ($217 million) to finance the hardware, software, and other services needed for the SMP.

Finally, in the other Federal administrative expenses category we must take a reduction of $125.9 million. This reduction falls on Federal personnel costs and related other objects of expenditure. However, we do not plan any reductions in force or furloughs of employees. Thirty million dollars of the required reduction will be obtained by maintaining full-time equivalent employment at the 1986 President's Budget level. No diminution of service in terms of processing times, waiting times in field offices, or payment accuracy is expected as a result. At the end of fiscal year 1985, SSA backlogs were at record lows and processing times were excellent. We also will need to reduce overtime from 3,113 to 1,775 work-years and to reduce SSA'a stay-in-school and summer aide programs by approximately 50 percent for the remainder of fiscal year 1986 (a 724 work-year reduction). The overtime and stay-in-school/summer aide reductions will produce $65.1 million of the required sequester. Should these reductions lead to rising backlogs or processing times, consideration will be given to tapping the contingency reserve to increase work-years.

In addition to these personnel savings, which will total $95.1 million, reductions in the budgets for travel, training, equipment, printing and supplies sufficient to save another $30.7 million will enable SSA to meet its reduction target for the other Federal administrative expenses category.

OTHER SSA PROGRAMS

Turning to other smaller SSA programs that serve the elderly, I would like to explain how special benefits for disabled coal miners and low-income home energy assistance will be affected by the sequester order for fiscal year 1986. Under Gramm-Rudman-Hollings rules, automatic increases in black lung benefits are subject to sequestering, while basic benefits are not. However, no benefit increase would have been payable this year in any case because such increases are tied to federal pay raises, and none is payable this year. Thus basic benefits will be maintained at current levels. SSA's administrative costs for the black lung program will be reduced by $280,000, without reductions in force or furloughs, but rather by improving productivity, reducing overtime, reducing temporary employment, and through lower-than-expected salary costs.

Low-income home energy assistance grants to the States must be reduced by $90.2 million in fiscal year 1986 from the appropriated level of $2.1 billion. This reduction will be treated as a reduction in the appropriation, and the remaining funds will be distributed according to the allocation formula added to the Low-Income Home Energy Assistance Act by the Human Services Reauthorization Act of 1984. This formula contains a hold-harmless provision which establishes a floor under States' funding. Because of this provision, 23 States are not expected to experience a reduction in energy assistance funds, while grants to the remaining States will decrease by amounts ranging from 4.3 percent to 11.7 percent. Federal administrative costs for the program are subject to sequestering as well; the $96,000 reduction will be achieved through diminished spending for contracts and interagency agreements.

Overall then, none of the benefits for aged persons in fiscal year 1986 will be reduced by the Gramm-Rudman-Hollings law except possibly some of those for the low-income home energy assistance program. Although there will be 4.3 percent reductions in most administrative funds, SSA expects to be able to accomplish the reductions without disruptions in service to the public or significant changes in processing times, waiting times, payment accuracy and the like. We also expect any adverse effects on SSA employees to be minimal. We will have to reduce overtime and summer employment, but there will be no reductions in force or furloughs. To some extent, the administrative savings we are required to achieve under the Gramm-Rudman-Hollings law were already in the works as part of the agency's own internal efforts to improve efficiency and streamline operations. By continuing to emphasize productivity gains through modernization of the claims process and other management improvements, we hope to maintain our high level of responsiveness to the public's needs, even when the amount of resources available to us to support program administration declines as part of government-wide efforts to reduce the deficit.

With respect to fiscal year 1987, it is premature for me to speculate on how the Gramm-Rudman-Hollings legislation might affect SSA's budget. At this time, the

President's budget has just been submitted, which would meet the Gramm-Rudman-Hollings target.

Mr. Chairman, this concludes my prepared remarks. I am prepared to respond to any questions you or other members of the committee may have.

Chairman HEINZ. Dr. Mather, of the Veterans' Administration.

STATEMENT OF DR. JOHN H. MATHER, ASSISTANT CHIEF MEDICAL DIRECTOR FOR GERIATRIC AND EXTENDED CARE, VETERANS' ADMINISTRATION, WASHINGTON, DC

Dr. MATHER. Mr. Chairman, as a point of departure, I believe it is important to highlight the breadth of VA programs which affect older veterans.

In general, the VA provides a broad spectrum of income maintenance and health support programs. From the Department of Veterans Benefits, compensation and pensions provide necessary income support and are augmented by various other benefits, such as VA mortgages, occupational programs, and adaptive housing and automobile allowances.

In the Department of Medicine and Surgery, we are able to provide a comprehensive array of health care services to eligible veterans, ranging from acute medical care to adult day health care. Consistent with the Department's health care mission, we do not have authority to provide a broad spectrum of health-related or social-welfare services such as chore services or meal shopping and preparation.

Our patients rely on two sources for health-related or social-support services. First, certain veterans who receive VA service-connected compensation or non-service-connected pension are eligible for additional benefits based on a finding that they are permanently housebound or require aid and attendance.

The Veterans Compensation and Pension Programs were exempted from Gramm-Rudman-Hollings reductions.

The second source of assistance for the older veteran in need of supportive services is the veteran's own community. The package of community-based programs, funded through Federal, State, local, and private agencies, is available to the frail elderly veteran as a citizen.

In fiscal year 1986, within the VA's health care delivery system, Gramm-Rudman-Hollings requires that $117,557,000 be withdrawn from the medical care appropriation. The act limited the reduction in fiscal year 1986 for direct medical care funding to 1 percent. It is estimated that 1,306 FTEE will be lost due to this reduction in our VA medical centers.

Other VA Medical and Health Programs were reduced by 4.3 percent, including medical, rehabilitation and health services research and grants for construction of State veterans homes.

Mr. Chairman, the veterans in this country are as a group reaching the age of 65 in greater numbers at an earlier point in time than the rest of the population. Also, it is evident that with these modest reductions in 1986 as a result of the "automatic deficit reduction," it is difficult to predict the direct effect on those veterans who do seek medical and health care in the VA.

There is existing capacity in our health care delivery system, although not always geographically equally accessible to all veterans, for those in need of acute care services.

The VA, as discussed earlier, relies on community-based programs for referral of veterans for personal care and other domestic services. The availability of these programs impact on our ability to maintain an effective discharge planning process for elderly veterans. The alternative of prolonged institutionalization is inappropriate for the veteran and a less-than-prudent expenditure of medical care funds.

Mr. Chairman, I appreciate this opportunity to make this presentation, and I will be pleased to respond to questions that you or other members of the committee might wish to pose.

Chairman HEINZ. Dr. Mather, thank you very much.

[The prepared statement of Dr. Mather follows:]

STATEMENT OF

JOHN H. MATHER, M. D.

ASSISTANT CHIEF MEDICAL DIRECTOR FOR GERIATRICS AND EXTENDED CARE

VETERANS ADMINISTRATION

BEFORE THE

SPECIAL COMMITTEE ON AGING

U.S. SENATE

FEBRUARY 21, 1986

Chairman and Members of the Committee:

Mr. Chairman, I am Dr. John Mather, the Assistant Chief Medical Director for Geriatrics and Extended Care in the Veterans Administration's Central Office within the Department of Medicine and Surgery. In this position I am the principal advisor to the Chief Medical Director in all matters pertaining to "evaluating all research, educational, and clinical health-care programs carried out in the field of geriatrics."

I am pleased to have this opportunity to represent the Veterans Administration before this Senate Special Committee on Aging and to present testimony concerning the effect of the automatic deficit reduction, commonly known as Gramm-Rudman-Hollings, on programs for the elderly.

As a point of departure, I believe it is important to highlight the breadth of Veterans Administration programs which affect older veterans. In general, the Veterans Administration provides a broad spectrum of income maintenance and support programs. From the Department of Veterans

Benefits, compensation and pensions provide necessary income support and are augmented by various other benefits such as VA mortgages, occupational programs, and adaptive housing and automobile allowances.

In the Department of Medicine and Surgery, we are able to provide a comprehensive array of health care services to eligible veterans, ranging from acute medical care to adult day health care. Consistent with the Department's health care mission, we do not have authority to provide a broad spectrum of health related or social welfare services such as chore services or meal shopping and preparation.

Our patients rely on two sources for health related/social support services. First, certain veterans who receive VA's service-connected compensation or nonservice-connected pension are eligible for additional benefits based on a finding that they are permanently housebound or require aid and attendance. These payments reflect circumstances where an individual's disabilities necessitate additional assistance to perform daily activities and to purchase needed and desired services. The Veterans Compensation and Pension Programs were exempted from Gramm-Rudman-Hollings reductions.

The second source of assistance for the older veteran in need of supportive services is the veteran's own community. The package of community-based programs, funded through Federal, state, local, and private agencies, is available to the frail elderly veteran as a citizen.

In Fiscal Year 1986, within the VA's health care delivery system Gramm/Rudman/Hollings requires that $117,557,000 be withdrawn from the medical

care appropriation. The act limited the reduction in Fiscal Year 86 for direct medical care funding to one percent. It is estimated that 1306 FTEE will be lost due to this reduction in our VA medical centers.

Other VA health related programs were reduced by 4.3 percent including medical, rehabilitation and health services research ($8.1 million); Canteen service ($8.1 million); and Grants for construction of State veterans homes ($0.9 million). Mr. Chairman, I should note that the 1987 budget request includes increased funding of $2.7 million for the State Home Per Diem program and $21.6 million for Grants for Construction of State Extended Care Facilities.

Mr. Chairman, the veterans in this country are as a group reaching the age of 65 in greater numbers at an earlier point in time than the rest of the population. Also, it is evident that with these modest reductions in 1986 as a result of "automatic deficit reduction" it is difficult to predict the direct effect on those veterans who do seek medical and health care in the VA. There is existing capacity in our health care delivery system, although not always geographically equally accessible for all veterans, for those in need of acute care services.

The VA, as discussed earlier, relies on community based programs for referral of veterans for personal care and other domestic services. The availability of these programs impact on our ability to maintain an effective discharge planning process for elderly veterans. The alternative of prolonged institutionalization is inappropriate for the veteran and a less than prudent expenditure of medical care funds.

Mr. Chairman, I appreciate this opportunity to make this presentation and I will be pleased to respond to questions that you or other members of the committee might wish to pose.

Chairman HEINZ. Mr. Mike Suzuki, of the Administration on Aging.

STATEMENT OF MICHIO SUZUKI, ASSOCIATE COMMISSIONER FOR STATE AND TRIBAL PROGRAMS, ADMINISTRATION ON AGING, DEPARTMENT OF HEALTH AND HUMAN SERVICES, WASHINGTON, DC

Mr. SUZUKI. Thank you, Mr. Chairman and members of the committee.

I am prepared this morning to testify on the impact of Gramm-Rudman-Hollings on the Older American Act programs administered by the Administration on Aging. Namely, there are title III grants for State and community programs on aging which support supportive services and senior centers; congregate nutrition services, and home-delivered nutrition services; title IV is for training, research and demonstration in the field of aging, and title VI of the Older Americans Act, provides grants to Indian tribes for services.

The Administration on Aging will receive a 4.3-percent reduction in the 1986 appropriation as a result of sequestering. We believe that this relatively small reduction with careful management should result in minimal reductions in the level of services under our program. Management initiatives which we have launched over the last several years, and which virtually all States have been implementing, will offset to a great degree the reductions.

The 4.3-percent reduction in title III allotments for Congregate and Home-Delivered Nutrition Programs will result in an average of up to four meals per-day reduction at each of our nutrition sites throughout the country. The reduction of 4.3-percent has been moderated by improvements in meal productivity, through management efficiencies, and through the contributions of the participants in the meal programs. In 1985, the senior citizens contributed over $120 million toward the cost of the meals. This amount has been rising at about 5 percent a year and will offset some of the reduction. It is also our understanding that the Department of Agriculture subsidy that accompanies our funding is raised during fiscal year 1986 to $125 million, $5 million above the $120 million in 1985. Thus the 53-cent per-meal subsidy from USDA will continue through the year. So those three forces, I think, will minimize the impact of the 4.3-percent reduction on the meal program.

In the supportive services and the Senior Center Program (title III-B), the appropriation is $265 million; the 4.3 percent reduction equates to $11.4 million. However, as you know, State and area agencies on aging have considerable flexibility to determine the priorities for their social service and Senior Center expenditures.

It is our expectation that there will be continued emphasis on the maintenance of independent living by elders and that less critical services will be reduced at the State and area levels.

As far as title VI is concerned, grants to Indian tribes, the appropriation for fiscal year 1986 was $7.5 million. We fund a total of 124 federally-recognized Indian tribes, with grants ranging from $43,000 to $90,000. The 4.3 percent reduction will amount to

$322,000, which will mean an average reduction of slightly less than $2,400 to each of our 135 grantees.

As far as title IV for research, demonstration and training is concerned, we received an appropriation initially of $25 million. The 4.3 percent reduction will result in a reduction of $1,075,000. This reduction will not substantially affect the research, demonstration and training program of the Administration on Aging. With continued careful analysis of awards and more effective utilization of existing and previously conducted research and demonstration, we believe the quality of our efforts will be maintained.

I will be pleased to try to answer any questions the committee may have.

Thank you, Mr. Chairman.

Chairman HEINZ. Mr. Suzuki, thank you very much.

[The prepared statement of Mr. Suzuki follows:]

Prepared Statement of Michio Suzuki

Good morning, Mr. Chairman and Members of the Committee. I am happy to have the opportunity to present testimony to the Senate Special Committee on Aging for its hearing on the "Impact of Gramm-Rudman-Hollings on the Elderly". I am prepared to testify on the Older Americans Act programs administered by the Administration on Aging.

The Congressionally-initiated Gramm-Rudman-Hollings legislation stipulates that budget deficits must be decreased annually and provides an automatic mechanism to ensure that we achieve a balanced budget by FY 1991. If the law is to accomplish its intended purpose, deficit reductions must mean spending reductions. The process calls for spending reductions across nearly all facets of the federal government. The difficulty of making and sustaining these reductions will be shared by many both inside and outside of government. But the economic benefits of both these actions will be shared by all Americans.

The Administration on Aging will receive a 4.3 percent reduction in funds in FY 1986 as a result of sequestering. We believe that this is a relatively small reduction and with careful management should result in minimal reductions in levels of service. Management initiatives which we have launched over the last several years, and which virtually

all States are now successfully implementing, will offset the impact of these reductions to a great degree.

The 4.3 percent reduction in Title III allotments for Congregate and Home-Delivered Nutrition Services in FY 1986 may result in an average reduction of up to 4 meals per nutrition site per day. This impact can be lessened, however, as a result of the following factors:

- o States continue to make improvements in meal productivity through the use of more effective management techniques such as bulk purchasing, performance based contracting, and joint contracting by multiple service providers. Our projected improvement in productivity is 6 percent which, given the improvements made in the past, is a conservative estimate.

- o States continue to report an increase in the amount of contributions made by participants in meal programs. In FY 1985, a total of $121 million in participant contributions was used to support Title III meals. We have targeted a 5 percent increase in the amount of contributions for FY 1986, and, given past experience

in this initiative, can reasonably expect to make it. These additional funds, too, will help offset the estimated reductions in meals served.

- o USDA anticipates that amounts available for reimbursement for meals under Title III will be at the FY 1986 authorized level of $125 million, a slight increase over the $120 million available in fiscal year 1985. This means that USDA should be able to maintain the 1985 reimbursement rate of 53¢ per meal.

Given these factors and the experience reported by the States over the past several years, we can reasonably expect that meal reductions will be minimized in the remainder of 1986.

The appropriated level for FY 1986 for Title III-B Supportive Services is $265 million. There will be a 4.3 percent overall reduction in Title III-B funds, a decrease of $11.4 million. However, as you know, State and Area Agencies on Aging have considerable flexibility to determine priorities for service expenditures. It is our expectation that services essential to the maintenance of independent living will continue to receive a high priority and that other less critical services will be reduced.

The appropriation level for Title VI grant to indian tribes in FY 1986 is $7.5 million. A total of 124 organizations of Federally-recognized tribes are currently funded with grants ranging from a low of about $43,000 to a high of $90,000. As a result of amendments to the Act in 1984, additional tribal organizations representing smaller numbers of older Indians are eligible for funding and are presently preparing applications. The Act requires funding of any application which meets the requirements of the Act and regulations, and we expect that an additional number of grants will have to be awarded this fiscal year. The best estimate is that this added number will be approximately 10-15 new grants. A 4.3 percent decrease in Title VI funding would translate into a decrease of $322,000 that would have to be prorated among about 135 grantees. The average decrease in each grant will be slightly less than $2,400.

The Administration on Aging's Title IV research, demonstration, and training programs received appropriations of $25 million for FY 1986. A 4.3 percent reduction would amount to $1,075,000. This reduction in funding would result in fewer awards by AoA but would not substantially affect the AoA research, demonstration and training program. With continued careful analysis of awards and more effective utilization of existing and previously

conducted research and demonstration findings, the quality of selected research, demonstrations, and training will continue.

It is of utmost importance that the large national deficit be reduced. To reach that goal will require the efforts, sacrifice, and support of all of us. Rest assured, however, that the Administration on Aging is doing everything possible to minimize the potential reduction in meals or supportive services funded under the Older Americans Act. Every effort will be made to minimize service level reduction through management improvements and cost efficiencies in 1986. Our concern is that program economies represent real savings while maintaining the current levels of service to the extent possible. In 1987, the Administration's budget proposal is to return Aging service programs to the 1985 levels.

We remain deeply committed to working with States and Area Agencies to build local systems which are responsive to the needs of older persons, particularly the most vulnerable. The Administration on Aging has rededicated itself to do all we can to support States and Area Agencies as we work together on behalf of older Americans.

Mr. Chairman, I appreciate the opportunity to make this presentation to the Committee, and I will be happy to answer any questions which you or the members may have.

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Chairman HEINZ. Let me just announce to my colleagues that our committee, of course, follows the "early bird rule", and the Chair will call on Senators Bingaman, Chiles, Wilson and Burdick in that order.

Let me begin, Mr. Suzuki, with you. Regarding the Older Americans Act, you indicate that some four meals per day less will be served at each Center. It is my understanding that there are 671 area agencies on aging, they contract with many Centers, and that if my information is correct, you are talking about $18 million out of congregate and home-delivered meals. That amounts to about 4.1 million meals overall.

First, how many actual Centers are there that are delivering these meals?

Mr. SUZUKI. We refer to them as "sites".

Chairman HEINZ. Sites.

Mr. SUZUKI. We have over 14,000 sites which deliver home-delivered and congregate meals.

Chairman HEINZ. So that there will be some 56,000 people who will not be served meals on a daily basis; is that right?

Mr. SUZUKI. Again, there are different levels of participation. We serve 225 million meals a year, and the Gramm-Rudman-Hollings reduction will amount to roughly 10 million meals spread out over 14,000 sites, which then results in less than four meals per day.

Chairman HEINZ. Right. And I am just multiplying the number of meals per site times the number of sites, and I get the number of 56,000 people. I assume that we are still serving basically one meal per person per day.

Mr. SUZUKI. Yes.

Chairman HEINZ. Is it not true, therefore, that there will be some 56,000 people who will not receive meals, based on your own number, which is four meals per day times 14,000 sites?

Mr. SUZUKI. Yes. But our history for the last several years indicates that we are increasing our productivity at 6 percent per year, and program contributions from the senior citizens who go to our sites increase about 5 percent per year.

Chairman HEINZ. The senior citizen population is increasing every bit that fast, too.

Mr. SUZUKI. And what we are projecting is that in past years, we have been increasing the number of meals, and with the same funding level this year, with the 4.3 percent cut, we believe the increased productivity and the additional contributions that have been coming in will at least get us to the 1985 level without cutting out a significant number of people.

Chairman HEINZ. I have a question now for Mr. Knapp. Mr. Knapp, you indicated that the only difference in the HUD budget as it affected senior citizens would be that you would not increase at the same rate of service that you have in the past. You said we are not going to serve a smaller number of people; the amount of service is not going to be less; we are just not going to grow as quickly.

One of the cuts under Gramm-Rudman-Hollings would be some loss of $60 million in modernization and rehab and maintenance to the tune of $52 million.

Is that going to cause any decay of housing stock, or is that money being wasted right now?

Mr. KNAPP. No, it is not being wasted, Mr. Chairman. In the public housing modernization, as you know, there is a quite extensive pipeline of modernization dollars previously authorized and not yet expended. There is proposed a full maintenance of emergency modernization at the levels that we would forecast, based upon the utilization of emergency modernization in prior years.

In public housing operating subsidies, I think that we expect to meet the full PFS demand. And the budget proposals for years going out continue to maintain the public housing operating subsidy level at certainly a higher level than anything that would conceivably come out of any repetitive automatic across-the-board cut scenario.

Chairman HEINZ. Correct me if I am wrong. What I gather you are saying is you think you can defer maintenance and modernization to this extent per year, but as a policy, were it carried out year-in, year-out, it would be a very counterproductive policy; is that right?

Mr. KNAPP. I think that that is correct. And we do not propose to limit modernization to emergency mod, going beyond, I think, 1986 and 1987.

Chairman HEINZ. Nationwide, there is a wait for public housing units that averages 29 months, I am told, with some 200,000 people in New York alone waiting for public housing.

Will these cuts make that situation worse? Will the average length increase?

Mr. KNAPP. The length may increase in waiting lists for public housing. Obviously, the addition through other programs such as vouchers, which do provide housing at a much faster rate, get people into units at a much faster rate than the new construction programs, adding 50,000 additional households which are being served by the programs in general which serve the same populace including the public housing populace in terms of income eligibility, we think to be the better way of easing that demand.

Chairman HEINZ. In view of Gramm-Rudman and HUD's other proposed cuts, how will the 50,000 vouchers that HUD plans to provide each year possibly meet the housing needs of elderly, handicapped and low-income applicants?

Mr. KNAPP. The voucher program, like the "Finders, Keepers" Section 8 existing program, has been a successful program, we believe, from the perspective of the elderly. There is very high elderly participation in that program, historically. Thirty to forty percent of the participants are elderly. The units that are sought by the elderly are among those that are most easily found with certificates. As you know, those programs permit people to stay in place and be served with affordability assistance, and that is a choice that historically has been made to a large extent by elderly participants in those programs.

In that respect, we believe that those programs do serve the elderly quite well.

Chairman HEINZ. Dr. Mather, at the Veterans Administration, you have indicated that there are going to be some substantial cuts in personnel. My question is, given the fact that many of us in our

States already receive complaints both from patients, from their loved ones, and even from VA staff members, that there are not enough staff at many VA facilities, particularly long-term care facilities, how many and what type of personnel who provide medical care to older veterans are going to be cut under the Gramm-Rudman fiscal year 1986 budget cuts?

Dr. MATHER. Mr. Chairman, as I indicated, the reductions in fiscal year 1986 will be about 1,306 FTEE, which will be spread around 172 VA Medical Centers and over 200 outpatient clinics. So I think if you were to do the arithmetic, you would see that the impact is something in the region of three to four personnel per VA Medical Center and the outpatient clinics. We expect that through attrition and so forth, those can be accommodated.

Chairman HEINZ. Now, those are all going to be in the direct provision of health care—those will be nurses, doctors, orderlies. Those are going to be people who are actually helping maintain and care for older veterans?

Dr. MATHER. Mr. Chairman, it spreads beyond health care providers.

Chairman HEINZ. Well, my question was those who provide health care. I understand your original number of 1,306, and that is why I asked what I did.

Dr. MATHER. Mr. Chairman, our system is such that it is decentralized so that the Director of a VA Medical Center has authority to make decisions about where reductions in personnel take place.

Chairman HEINZ. Would you anticipate that most of the 1,300 would come out of providers, direct providers of health care?

Dr. MATHER. Mr. Chairman, I cannot answer that question directly. I suspect that, as is often the case in our system, attrition and vacancies will take care of it, and that is as likely to be a secretary as it is a physician.

Chairman HEINZ. What proportion of the people we are talking about are direct providers, and what proportion are clerical support?

Dr. MATHER. Mr. Chairman, I would have to provide that for the record to be completely accurate, but we are talking about something like a two-thirds/one-third split—two-thirds providers, one-third support staff like janitors and secretaries and so forth.

Chairman HEINZ. All right. My time has expired.

Senator Bingaman.

Senator BINGAMAN. Thank you very much, Mr. Chairman.

Let me say my initial reaction is that we should get Secretary Weinberger to a short course on "Agency Advocacy" for the rest of the Federal Government. His concern about these cuts is substantial, as he comes before the Armed Services Committee. I do not detect much concern here this morning.

Chairman HEINZ. If the Senator will yield, it looks like he is aging. [Laughter.]

Senator BINGAMAN. He may be aging; he is also quite effective in advocating his budget.

Let me ask Mr. Knapp first, the proposal as I understand it, in addition to the Gramm-Rudman cut, the Section 202 Program, you are proposing to rescind funding for that in 1986 and terminate that; is that right?

Mr. KNAPP. That is correct, sir.

Senator BINGAMAN. In your view, that would not have an adverse effect, or the voucher proposal solves that problem?

Mr. KNAPP. It has an effect, just as any budget reductions have an effect. But as a way of meeting the targets that we are committed to meet, we believe that that transfer from directly subsidizing new construction toward direct tenant-based subsidy is a far more efficient and effective means of permitting us to serve more people than we otherwise would be able to.

Senator BINGAMAN. And your general basis as I understand what you have said is that there is an increased availability of housing for elderly and handicapped at the present time, and the Federal Government can get out of the business of constructing and go with vouchers.

Do you have evidence that there is a surplus of this housing available, or an increasing in housing availability in rural areas, because there are a lot of parts of my State where I was visiting this last week, where people expressed great concern about lack of housing for elderly that could be afforded. Are they confused about that?

Mr. KNAPP. I do not have local data at hand, Senator. Nationally, the vacancy rates appear to have risen, and nationally, on a unit-size basis, the vacancy rates for, let us say, zeros and one-bedroom apartments appear to be the highest vacancy rates in terms of unit size.

Senator BINGAMAN. And you do not have it broken down as to between urban and rural areas?

Mr. KNAPP. I do not have that available, no, sir, but I can supply that, if you wish.[1]

Senator BINGAMAN. I think that would be useful in determining whether it is appropriate to phase out entirely Government support—not phase out, but to terminate entirely—Government support for housing in rural areas, which is what is being proposed, as I understand it.

Also, you are proposing to terminate Government support for Indian housing. I would be interested in knowing if you have any evidence that there is a surplus of housing available for Indians. Again, I spent some time on the Navajo Reservation in my State, which is the largest reservation in the country, this last week, and it is not generally thought that there is an overabundance of housing available there.

Do you have statistics as to the availability of housing on Indian reservations which would justify the termination of that program?

Mr. KNAPP. I do not have data with me regarding that. There is, as there is in the Public Housing Program itself, I know, a pipeline on authorized Indian housing. I will say with regard to Indians and Indian reservations, we are in other ways attempting to expand the kinds of housing available on Indian reservations through such means, for instance, as trying to make the FHA insurance more feasible on Indian reservations, in view of the different kinds of

[1] See appendix, p. 144.

land tenure. That is something that has been going on at the same time.

[Subsequent to the hearing the following data was submitted for the record:]

A PROPOSED ANSWER RE INDIAN HOUSING NEEDS

The most recent Census data indicate a total need of 59,000 units in Indian areas. The U.S. Census standard for housing need was based on overcrowding (1.01 or more persons per room) and/or no complete plumbing for exclusive use. The Indian housing program, from the completion of the 1980 Census through Fiscal Year 1985, produced about 22,000 units. As of March 31, 1986, there are approximately 7,000 units that have been reserved but not yet under construction under the Indian Housing Program. In addition, there are 3,700 units under construction. These units have made and will make substantial headway in meeting the housing need in Indian areas.

Senator BINGAMAN. Well, now, am I wrong? I thought the Farmers Home Administration Program for rural housing is being terminated; is that right?

Mr. KNAPP. I believe that the Farmers Home Program for that is proposed to be terminated, but certainly not the HUD programs. And I think it is anticipated that the HUD housing programs will take up a good deal of the slack from Farmers Home, and that there will be a reallocation, in fact, of the mix between urban and nonurban housing in our programs.

Senator BINGAMAN. So there is an increase proposed for the HUD programs in this area; is that what you are saying?

Mr. KNAPP. There are allocation changes that are proposed as between urban and nonurban allocations of HUD program funds.

Senator BINGAMAN. But there is an increase that will make up for the cut that is contemplated in Farmers Home?

Mr. KNAPP. Yes; that is correct.

Senator BINGAMAN. I would be interested in getting the figures for that, if you could supply those?

Mr. KNAPP. I will furnish that; yes.

Senator BINGAMAN. Let me ask Mr. Suzuki, if I could, you indicated that the cuts contemplated here on March 1, are not significant. I gather from the people in my State who administer the program there that they estimate—and I do not know, I think these are probably fairly accurate figures—that there are over 1,000 people who now are served meals there in the State that will not be served once the March 1 cuts take effect.

That is consistent with your general testimony, is it now?

Mr. SUZUKI. We really believe that the increasing ability to turn out more meals per dollar that we have seen in the last several years will not lead to an actual reduction, but what we will not be doing is increasing the number of meals relative to the amount of money that we have had. So that there will be some——

Senator BINGAMAN. So you think that the four meals per-meal site is not going to occur, the four-meal reduction?

Mr. SUZUKI. Yes. The cut of four meals, less than four meals, would occur if there were no improvements of the kind that we have had in the last several years. We believe the 6-percent productivity improvement that we have had for the last several years will continue and make up the difference.

What we will not have is the increasing ability to serve more people that we have had for the last several years.

Senator BINGAMAN. You indicated you have $7.5 million that you put into contracts with Indian tribes for them to have these programs. What is that figure proposed for next year?

Mr. SUZUKI. It is again $7.5 million.

Senator BINGAMAN. Just a flat figure?

Mr. SUZUKI. Yes.

Senator BINGAMAN. And what about the figure for the meals at the various meal sites; does that stay even as well between 1986 and 1987?

Mr. SUZUKI. I am sorry?

Senator BINGAMAN. The funding for the congregate meals; that stays the same between 1986 and 1987?

Mr. SUZUKI. Our proposal for 1987 is to restore our level of funding to 1985, pre-Gramm-Rudman-Hollings.

Senator BINGAMAN. To restore it to 1985—that means an increase?

Mr. SUZUKI. A slight increase above 1986; yes, I think that is the direction we are moving in.

Senator BINGAMAN. And the same with home-delivered meals, it would go back to the 1985 level?

Mr. SUZUKI. Yes.

Senator BINGAMAN. Mr. Fleming, let me ask you, if I could, you refer on page 6 of your testimony to the subject of research and demonstrations and indicate that "The cut will result in the cancellation of plans for some awards to study benefit coverage issues, the efficacy of preventive services, and patient education efforts."

I am wondering why you singled out preventive services and patient education efforts as low priority for purposes of this funding cut?

Mr. FLEMING. Senator, that is not to say that they are not important—they clearly are. But as we looked at the options, we have about $19 million for research that Congress has required us to do on reimbursement methodology, plus we have reserved about $3 million to do additional studies on new projects for reimbursement methodology as we move into capitation.

So it was simply a matter of choices in dealing with the Gramm-Rudman-Hollings cuts.

Senator BINGAMAN. And your view was that those items were lower priority than the others?

Mr. FLEMING. They are really not at the core of our mission. They are not unimportant, and it is conceivable that if at some time in the future we could pick those up again, we would like to do so.

Chairman HEINZ. Senator Bingaman, there will be time for you to return to your line of questioning.

Senator BINGAMAN. Surely. Is my time up? I did not see a note.

Chairman HEINZ. Well, the lights are the signal there, but they are hard to see.

Senator BINGAMAN. Thank you, Mr. Chairman.

Chairman HEINZ. Senator Chiles.

STATEMENT BY SENATOR LAWTON CHILES

Senator CHILES. Thank you, Mr. Chairman. I want to express my appreciation to you for holding this hearing.

Since we are facing the first sequestration under Gramm-Rudman on March 1, the hearing certainly comes at a most appropriate time.

I think it is important for members of our Aging Committee to have a good grasp on what the impact of this sequestration is going to be, and it is more important that we develop a hearing record in order that other Members of the Senate may know the impact on our Nation's elderly.

I would have preferred that we had gotten to this point without the sequestration having taken place. If we had adopted the bipartisan Gorton-Chiles budget plan last year, we would not have had to face these across-the-board cuts, and I think we would be on the path to a balanced budget in a fair way now—but we did not. And now, we face cuts that no one likes.

So maybe if we look now at some of the results that we produce by not taking action, we will be more inclined to promote a fair and reasonable budget in the next few months.

I hope the administration will look at the same facts and figures and be willing to come to the table to join with us in a settlement that gets this job done.

I think it is very important for us to dispel some of the myths that are springing up about the young being "soaked" in order to exempt the elderly. That is simply nonsense. Whether you are 80 or 18 makes no difference when it comes to the deficit. Our deficits today are the products of choices that we made when we said that we can balance the budget while cutting taxes and raising costs in certain roped-off parts of the budget. No one has got any business framing the issue of the Federal budget in terms of the young against the old.

Hopefully, if education is needed in this area, this hearing will be a good move in that direction.

In my experience, Mr. Chairman, as you know, I come from a State with 2.5 million older persons. No group has been more willing to come to grips with our deficit problem than the elderly. They saw a Depression and what it could do to the Nation, and they have no desire to see their children, their grandchildren, and even great-grandchildren have to go through that agony. I think they have been more than willing to do their part. But they want to know that everyone else is sharing the sacrifice and the pain with them, and they know that we have not been fair in selecting out certain groups of retirees to bear the burden. We have not been just in allowing certain corporations and wealthy individuals to get by without paying their fair share. It is not fair to allow unbridled defense spending that enriches contractors without increasing our military end-strength, and I hope that we in the Senate will rectify these issues in the budget that we pass for next year.

I certainly tried with a number of others to reach that objective last year, and I come to this year's deliberations with the same resolve. I think that it is not going to be easy, but it is a task that we all have to join up to.

Dr. Mather, as I understand it, the VA, after the Gramm-Rudman sequester cut of 1,300 full-time equivalents in medical care, is now proposing in the President's budget to cut an additional 8,900 people in 1987. That will be a total reduction of 10,200 employees from the fiscal year 1986 appropriation level.

How can you cut this many employees from the current VA hospital and nursing care programs in 1 year and not suffer major reductions in quality of care?

Are you planning to reduce the quality of care, or are you planning on closing down some of the existing hospitals?

Dr. MATHER. Senator, I am not here to speak authoritatively on the issue of the fiscal 1987 budget, but the President has put before Congress a budget that will allow us to transition appropriately into fiscal year 1987.

The reductions that you refer to reflect no intent at all to affect quality; in fact, they are a reflection of some of the legislative changes that have been proposed, such as a means test, third-party reimbursement for private insurance, and the like.

Further than that there will be no closing of facilities, and there will only be a modest change in the workload. So that as quality is maintained the actual availability of the amount of services will not be as great as it is in fiscal year 1986.

Senator CHILES. Do you think you can cut 10,200 employees in 1 year, while you are trying to phase in some other changes, and you are not going to affect care?

Dr. MATHER. Senator, I do not have before me the fiscal year 1987 budget documents, but I think they reflect a careful look at all the administration's concerns about reducing the deficit, and allowing those provisions in Gramm-Rudman-Hollings in fiscal year 1987, as it were, not to kick in.

I think I can say fairly strongly that the administration's balanced budget of fiscal year 1987 does reflect, with the reductions in employment, the maintenance of quality, although there will indeed be a certain reduction in those that can be served.

Senator CHILES. My time is up.

Chairman HEINZ. Senator Chiles, thank you very much.

Senator Wilson.

STATEMENT BY SENATOR PETE WILSON

Senator WILSON. Thank you very much, Mr. Chairman, and I join in congratulating you and thanking you for convening this very important hearing.

I assume that everybody in this room and a great many more outside it know, but perhaps it bears repeating, that Gramm-Rudman by no means compels us to accept an automatic cut. It compels us to accept that cut only in the absence of a congressional consensus to avoid it. And the entire reason for the legislation is that there is nothing in the past half-century of the history of this body, the other body, or a succession of national administrations, to warrant any confidence on the part of the public that without this sword of Damocles hanging over our head, that we will depart from a tradition of not setting and keeping priorities, but instead persist in spending for virtually everything.

So I think this hearing is essential to assist those of us concerned with the problems of the aging, and being armed with sufficient information so that Congress can do what it is supposed to do, but has clearly defaulted from doing, and that is setting and keeping priorities.

Having said that let me first express surprise and pleasure that this is such a short-winded panel that being only a few minutes late, I managed to miss the first half of it. I had expected that in the traditions of the Senate, I would be able to arrive at a gentlemanly pace and still be on time for most of the hearing.

Chairman HEINZ. Would the gentleman yield?

Senator WILSON. Yes, if it is on the chairman's time.

Chairman HEINZ. It is on the chairman's time. Under Gramm-Rudman, all testimony is severely cut. [Laughter.]

Senator EVANS. By 4.6 percent?

Chairman HEINZ. At least.

Senator WILSON. If you had announced that earlier, there would have been a landslide vote for it. [Laughter.]

But in any case, having missed Dr. Williams, let me apologize to him and ask a question.

I am very much concerned with what the impact on research into Alzheimer's disease will be from the projected automatic cuts.[1]

Dr. WILLIAMS. Yes, Senator Wilson. As I stated in our testimony, we do make priorities, and Alzheimer's disease research is one of our highest. We have tried to preserve that as much as possible.

Nevertheless, the Gramm-Rudman-Hollings cuts have been applied across all mechanisms—including the research centers mechanism—as a consequence, we will be delaying the progress in research supported by our Alzheimer Disease Research Centers, in several settings. Initiations of these activities have been carried forward from earlier years because available funds were insufficient to start all approved projects.

One example is in the program in Boston, where Dr. Gusella, who identified the gene area for Huntington's disease, will be unable to begin a project approaching that problem in Alzheimer disease, where there may well be some important payoff in identifying some analogous genetic feature. Another example is at the University of Southern California, where the planned expansion of the number of autopsies on Alzheimer's disease victims will be delayed. A third example is a likely delay in the analysis of some of our epidemiologic data on dementia.

So there are several areas where we clearly will not be able to carry forward all of the research which has been planned and approved for award.

Senator WILSON. Thank you very much, Doctor. I think that that work is correctly identified by your agency as a priority.

Mr. Fleming, what is the magnitude of Medicare savings possible from imposing this third-party requirement—in other words, the requirement that a private health insurance carrier be made primarily responsible rather than secondarily responsible for the payment of health care costs?

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[1] See appendix, p. 117, for more questions and answers on Alzheimers disease programs and policies of the National Institute on Aging.

Mr. FLEMING. I do not have the figures with me, Senator, but we can supply it for the record. It is in the range of $200 million for the working aged.

Senator WILSON. I would like to have those for the record, because whatever the amount, it seems to me that that really is an equitable and overdue requirement, and I would hope that it could bring some substantial relief.

[Subsequent to the hearing, the following was submitted for the record:]

Under current law, Medicare is secondary payer only for workers aged 65–69 and their spouses who have employer-based group coverage on the basis of their own or their spouse's current employment. The Administration proposes to extend the secondary payer provision to workers and their spouses age 70 and over. If implemented, this proposal would save the program $210 million in fiscal year 1987, and $235 million in fiscal year 1988.

The Administration also proposes to make Medicare the secondary payer when disabled Medicare beneficiaries or their spouses have employer group health insurance coverage. The proposal would require employers to offer group coverage to the disabled or their spouses and dependents. Violators would be denied use of the tax deduction for employer health insurance. If enacted, the proposal would save $330 million in fiscal year 1987 and $350 million in fiscal year 1988.

Senator WILSON. Mr. Suzuki, could you describe what coordination has been made between your Agency and the Department of Agriculture with respect to distribution of surplus commodities as part of the Nutrition Programs, both congregate and otherwise?

Mr. SUZUKI. We have been actively engaged with the USDA in terms of the Commodities Program. I must state frankly that the States have options as to whether they accept the subsidy in terms of commodities or cash in lieu of the commodities, and State choices have historically run toward cash. So the vast majority of States draw down the subsidy in cash. Recently, we have been emphasizing and working on various aspects of the Commodities Program where we feel there would be a better subsidy through commodities, and we are engaged right now in working with national organizations and with USDA in trying to promote greater use of commodities. But frankly, the vast majority of States use cash.

Senator WILSON. Mr. Chairman, my time has expired. I would very much like to pursue this point, though, because I think that the use of these surplus commodities has not been as vigorous or as efficient as it could be, and I think it points to a very significant answer.

Mr. SUZUKI. We believe it deserves much more emphasis, and a number of national organizations have been joining with us in promoting the use of commodities.

Senator WILSON. Thank you.

Chairman HEINZ. Thank you, Senator Wilson.

Senator Burdick.

STATEMENT BY SENATOR QUENTIN N. BURDICK

Senator BURDICK. Thank you, Mr. Chairman.

Members of the panel, in my State of North Dakota we will have, of course, the 4.3 percent cuts immediately, and the 1987 cuts will amount to $52,740,000. North Dakota ranks sixth in the Nation in per capita losses under Gramm-Rudman. The fiscal 1986 and 1987 cuts will deliver a devastating blow to the States, funds

for low-income energy assistance. North Dakota's cuts in the Low-Income Energy Assistance Program are the third highest in the Nation.

I would like to address this question first of all to Mr. Sabatini. What are we going to do about low-income assistance in States like North Dakota which are beset with very severe weather, and they are barely getting along now with the allotment; what are we going to do with cuts like this in the future?

Mr. SABATINI. Senator, the 4.3 percent reductions that we are required to take have to be made in the Low-Income Home Energy Assistance Program in accordance with the reallocation formula that was passed in 1984.

One of the provisions in that statute passed at that time was a guaranteed hold-harmless level for certain States. That provision indicated that States would not fall below what the allocation would have been under the prior formula, assuming that the appropriated amounts would have been $1.975 billion.

I have detailed information on each State, and looking at North Dakota, the indication is that they will not have a reduction in low-income energy assistance as a result of the Gramm-Rudman-Hollings legislation, that the State falls into the category of one of the protected States in the hold-harmless category and will not be experiencing a reduction.

Senator BURDICK. Well, that is good news. What about 1987? What about the cuts?

Mr. SABATINI. The 1987 budget is requesting an appropriation of $2.1 billion, the same as the 1986 appropriation prior to the Gramm-Rudman reductions.

Senator BURDICK. Are you telling me that the 1987 budget will not be cut in energy assistance?

Mr. SABATINI. The appropriation being requested in the 1987 budget is the same as the amount requested in 1986.

Senator BURDICK. And it will be exempt from Gramm-Rudman cuts?

Mr. SABATINI. No, sir.

Senator BURDICK. Well, that is what I am talking about.

Mr. SABATINI. I am sorry. The Low-Income Home Energy Program will not be exempt from Gramm-Rudman cuts. As I indicated in my statement, however, it is virtually impossible to speculate on the impact of Gramm-Rudman in 1987 at this point.

Senator BURDICK. Well, if we take the President's recommendation, what is the cut going to be?

Mr. SABATINI. For 1987?

Senator BURDICK. Yes.

Mr. SABATINI. If the President's budget were enacted as presented, the funding level for the Energy Program is the same as it is in 1986, $2.1 billion.

Senator BURDICK. Well, am I to tell my people in North Dakota that in 1987 there will be no reduction in energy assistance?

Mr. SABATINI. Assuming that you pass the President's budget as submitted.

Senator BURDICK. Is that correct? Well, there is some question about that. [Laughter.]

Let me go to Mr. Suzuki. You stated that these cuts in Meals-on-Wheels and other food help will not be hurt because you are going to increase productivity. Is that correct?

Mr. SUZUKI. Well, I am stating that we hope that the cuts in terms of the number of meals and the number of people served in 1986 will not be that great. Our historical pattern is increased productivity of at least 6 percent in the past several years. We have no reason to believe that the increase in productivity in 1986 will not continue, so that we think it will overcome the Gramm-Rudman-Hollings cut. But again, I have to frankly state, that obviously we are not going to be serving as many people as we would have if there had not been a cut.

Senator BURDICK. Well, you know that Meals-on-Wheels is a good project, and it saves money. Many people do not have to go to nursing homes, if this is an alternative. And I do not understand why they cut this at all.

Mr. SUZUKI. Well, the Administration on Aging was instructed by the Department that cuts were made across each of the programs. In other words, there was no selectivity allowed by the law; it was 4.3 percent in each of the programs.

Senator BURDICK. Well, what is your testimony? Is this 4.3 percent cut not going to hurt the programs?

Mr. SUZUKI. The 4.3 percent obviously is a reduction. But we are hoping that the cut in the number of meals and people served will be lessened, that the impact of the 4.3 percent will be moderated by those forces that we have talked about.

Chairman HEINZ. Senator Burdick, your time has expired. If you wish a second round of questions, there will be time.

Senator BURDICK. Thank you, Mr. Chairman.

[The prepared statement of Senator Burdick follows:]

PREPARED STATEMENT OF QUENTIN N. BURDICK

Thank you, Mr. Chairman. I appreciate the Aging Committee holding this hearing on the effects of the Gramm-Rudman-Hollings deficit reduction bill.

Last year, when he was describing his balanced budget proposal, Senator Rudman called the Gramm-Rudman-Hollings legislation "a bad idea whose time has come."

I thought he was half right, so I voted against the bill.

I know Gramm-Rudman is not an idea whose time has come—but it's the law now, and we have to live with it.

We are at the very beginning of a rocky, hard road of Gramm-Rudman-Hollings. Already, it has become painfully clear to me that the Gramm-Rudman-Hollings cuts coming on March 1 are a bad idea.

And these cuts are only the beginning. If Congress and the President can't agree on a budget for next year that meets the Gramm-Rudman deficit reduction formula, much more severe cuts will be made in the budget.

In my state of North Dakota, these cuts will take back $52,740,000—North Dakota ranks 6th in the nation in per capita losses under Gramm-Rudman.

The fiscal year 1987 cuts will knock the stuffing out of the state's funds for education and for employment services. The picture is no brighter for programs under the Social Services block grant, the health block grants, and funds for highways and public works.

The senior citizens of North Dakota, supposedly protected under Gramm-Rudman from the worst cuts, will face funding cuts in special programs for the aging that threaten the very lives of those essential programs—senior centers, nutrition services, and meals on wheels in North Dakota will take cuts more severe than those in 45 other states.

Unfortunately, Gramm-Rudman is with us, and for now, we have to live with its cuts. What we need to explore here is how we can shield America's senior citizens from the worst blows of the Gramm-Rudman budget cuts.

According to a report recently published by this Committee, over 3,700,000 elderly Americans are living in poverty—over 14 percent of the elderly population. It is important for us to know just how the Gramm-Rudman cuts will affect this population.

I look forward to hearing from our witnesses this morning, both how the Gramm-Rudman cuts may affect elderly Americans, and how the Administration will counsel states to lessen the blow of those cuts to the greatest extent possible. Thank you.

Chairman HEINZ. Senator Evans.

Senator EVANS. Thank you, Mr. Chairman.

STATEMENT BY SENATOR DANIEL J. EVANS

Let me begin, as Senator Chiles and others have done, by giving my own interpretation, of Gramm-Rudman. I think it is very simple. We have had the privilege and the pleasure in this Government for many, many years of four major variables in budgetmaking—the amount we spend on one side, and priorities in spending; the amount we expect from current tax revenues; the amount we might gain from new tax revenues, and then very conveniently, the sloppy size of the deficit to make it all work out.

I think all Gramm-Rudman has done is eliminate one variable. We cannot fuss around now with the size of the deficit. Thus we ought to prioritize programs that are legitimate in budgetmaking and spending. How we analyze and spend current revenues will answer the question of whether or not new taxes are needed.

Mr. Chairman, I think it will be a long time before we get to the point of over-concern about what happens in 1987—we all ought to recognize that we are not going to pass precisely the budget that the President has submitted. We have the full array of priorities to set for 1987. The only thing we are obliged to do is meet up with the requirements of these cutbacks in 1986.

I have had the privilege over my political career first to act as chief executive on many occasions, having to go in and cut back expenditures because we were faced with a budget deficit. I also had the privilege, later on, of being a manager of one of the agencies of that same State government as a college president.

I could never understand, when I asked for cutbacks, why there was no money in the till at the end of the biennium. As a manager of one of those agencies, I understood very well. We did everything we could to make sure there was not nothing left in the till. And in fact, we were good enough to turn back, as I remember the precise figure, $5.83 at the end of one biennium in which we were requested to turn money back.

With that, let me turn to some questions, particularly first of Mr. Sabatini. In your testimony on page 3, you talk about—

The reduction in the contingency reserve which is available to meet certain unanticipated workloads * * * is not large enough to threaten program operations and service to the public. After the reduction, $139 million remains to deal with contingencies. Since the traditional contingency reserve has been $50 million, we think the size of the reserve remaining is adequate for our needs.

If the traditional reserve has been $50 million, why is it $138 million, and why don't we take the difference between $50 million and $138 million as a good way of aiming at our budget reduction for 1986?

Mr. SABATINI. Senator, the contingency reserve in our 1986 appropriation was $145 million. It becomes about $139 million after

you apply the 4.3-percent reduction. It was much higher in the 1986 appropriation than what the traditional contingency reserve has been, due primarily to two factors. One is that at the time we were formulating and putting together the 1986 budget request, we had not had sufficient experience in terms of the implementation of the 1983 disability legislation. As a result, we were unsure of what the administrative costs for implementing that legislation would be.

We therefore requested and were granted from the Appropriations Committee a significant increase in what the traditional contingency reserve had been.

In addition, we asked the Appropriations Committees to put some additional money into that contingency reserve to enable us to deal with the retraining and redeployment of personnel whose jobs may be impacted as a result of our systems modernization efforts. And we were fortunate enough to have the Appropriations Committee agree with us, and that accounted for that sizable increase.

Senator EVANS. Well, what have you found out? Have you needed the extra, or haven't you?

Mr. SABATINI. We are now starting to gain the experience and gather the data that we need in terms of costing out the impact of the administration of the disability legislation, and it appears as though we may have to request an apportionment for some additional funds from that contingency reserve for the State disability agencies for that program.

In addition, we have started a new program to minimize any adverse impacts in the relocation of any personnel that we have to move to various locations throughout the country to deal with staffing imbalances, and it is too early for us to tell at this point whether or not we would need the contingency reserve for this purpose.

Senator EVANS. Thank you, Mr. Chairman.

Chairman HEINZ. Thank you, Senator Evans.

Senator Dodd.

Senator DODD. Thank you very much, Mr. Chairman.

STATEMENT BY SENATOR CHRISTOPHER J. DODD

In the interest of time, Mr. Chairman, let me request that the record be kept open for comments or further questions.

Would that be appropriate?

Chairman HEINZ. Senator Dodd, that is an excellent suggestion, and we certainly will do so.

Senator DODD. I appreciate that, and I will ask unanimous consent that an opening statement be made a part of the record.

[The prepared statement of Senator Dodd follows:]

PREPARED STATEMENT OF CHRISTOPHER J. DODD

Mr. Chairman, let me begin by commending you and the committee staff on organizing this hearing this morning, one which will undoubtedly provide us with a clearer understanding of the impact of Gramm-Rudman-Hollings on programs and issues effecting our senior citizens. Obviously, the better armed we are with the facts concerning the effects of fiscal year 1986 sequestration and the likely effects of any future automatic cuts, the more able we will be to cushion as best we can the hard brunt of those effects upon the people we have all been elected to serve.

I think it is important to emphasize briefly, however, that Gramm-Rudman-Hollings is not the enemy here this morning. Gramm-Rudman-Hollings was, in my view, a difficult response to a most difficult problem: the run-away deficit and our collective inability—in concert with the President—to get the national budget under control.

While visiting my state this past year, I found not only a recognition of the serious future consequences of the continuation of this run-away deficit, but also a genuine willingness among all segments of the population to contribute to the resolution of this problem. From senior citizens to corporate executives in my state, the message was the same: Reduce the deficit and if you do it equitably and compassionately, we will contribute to the effort.

In an effort to be equitable and compassionate, Congress should seek to avoid the automatic cuts of Gramm-Rudman-Hollings by working together to pass responsible legislation which reduces the enormous deficit without sacrificing the health and welfare of older Americans or the protection afforded by national programs for the elderly. We have already exempted from the operation of any automatic cuts certain programs effecting the elderly, and it is my hope that this exemption reflects a strong commitment to reduce the deficit without unfairly or callously disregarding the needs of the elderly.

I call upon the present administration today, as I have in the past, to make an equal and corresponding commitment to reduce the deficit in a manner which is fair and compassionate to the needs and concerns of our elderly citizens. This administration has consistently over the past years proposed cuts in programs for the elderly in budgets which are not, I would suggest, shining examples of fair and compassionate governing.

Gramm-Rudman-Hollings clearly creates tensions in the system. It is unfortunate that the "86 cuts will go into effect. We should have responded to the impending threat of those cuts by proposing an alternative. I co-sponsored one. But we should not lose sight today of the differentiation between the effects of Gramm-Rudman-Hollings and the budgetary diet the President would like to put this country on.

Let me give you two examples. The President's fiscal year 1987 budget seeks total Medicare cuts of $4.7 billion in outlays and, by fiscal year 1989, a total cut of 11.3 percent from current law projections. Under Gramm-Rudman-Hollings, however, Medicare is subjected to a special procedure which would limit any sequestration cut to 2 percent in fiscal year 1987 and thereafter. Another example: section 202 elderly housing. Under the Administration's budget, this program would be terminated with the fiscal year 1986 appropriation rescinded. The two-year impact of this budget proposal would be the denial of housing aid to 24,000 elderly and handicapped individuals. Even automatic cuts under Gramm-Rudman-Hollings would not have such a devastating effect upon this program for the elderly.

Now more than ever we cannot afford to be a house divided over fundamental priorities. It is high time that all of us—including this administration—agree that the protection of the very health and welfare of our senior citizens is of the highest priority and that we work tirelessly and with dedication toward that end.

Senator DODD. Mr. Chairman. I would echo the remarks made by Senator Pete Wilson, that what we are doing here discussing Gramm-Rudman is really discussing a process to deal with a problem that was created over the years.

I think too often there is an emphasis on talking about Gramm-Rudman without going back and recognizing how this came about, and it puts us in this particular position. I think that is something that ought to be made clear to many people.

In the absence of Gramm-Rudman or something like it, I do not know that anyone has made much of a suggestion as to how we deal with these particular problems of prioritizing our budget needs in the country.

I am curious, however, and if I could just run down the group of panelists rather quickly. I think the housing area was hit, but let me go back again.

I would like just a quick analysis, if I could, of how your budgets would be affected, a quick comparative analysis of how your budgets would be affected as compared between the President's proposal

made a week and a half or 2 weeks ago and what Gramm-Rudman would do to it, if it were implemented, and if we fail along with the President to come up with a budget process this year, and the trigger goes into effect.

How do you come out with your budget, Mr. Knapp? We will start with you, in housing. Which is a better budget for you?

Mr. KNAPP. Well, the budget again depends, as you know very well from your experience on the Banking Committee, Senator, in terms of how you measure things, whether it is gross dollars that you are talking about, or what you consider to be a more efficient way of providing assistance.

I would say that if you look at it in a gross dollars point of view, it is probably true that even successive applications of across-the-board cuts will leave at the bottom line a greater number of dollars allocated to housing programs than the President's budget.

There are exceptions to that.

Senator DODD. In elderly housing, 202 programs, for instance.

Mr. KNAPP. Well, yes, obviously in 202, because we would propose termination of 202 itself. I would mention two exceptions to it. One that affects housing is, of course, in administrative budgets. The President's program proposes a more substantial administrative budget for the Department as a whole than any successive application of Gramm-Rudman would.

Another area which also affects the elderly is, as I mentioned before, public housing operating subsidies. That is an area where the President's budget continues to show an increase in public housing operating subsidies through the out-years—certainly not something that any automatic across-the-board cut would arrive at.

On the whole, though, again the big question is the way in which you deliver the assistance. And we believe again that the kind of direct affordability assistance that is provided through vouchers will permit us in the end to continue to serve an increasing number of people through the years, in a way that successive across-the-board cuts and the much-reduced outlay savings that they would achieve simply will not permit.

Senator DODD. But in this coming fiscal year you do a lot better under Gramm-Rudman than you do under the President's budget as a bottom line.

Mr. KNAPP. Translated in terms of bottom-line budget authority that it leaves the Department, that is correct.

Senator DODD. All right.

Mr. Fleming, how do you do? Let us mention Medicare specifically. I am kind of interested in that one. How do you do in Medicare, Gramm-Rudman versus the President's budget?

Mr. FLEMING. From a management perspective, we would do better under the President's budget in that it would enable us to target our cuts in certain areas that are doing fairly well——

Senator DODD. Under Gramm-Rudman, you do better than the President's budget in Medicare?

Mr. FLEMING. No. I said under the President's budget.

Senator DODD. You do better?

Mr. FLEMING. Yes.

Senator DODD. There is a 23-percent reduction, as I understand it, in terms of the President's budget in Medicare——

Mr. FLEMING. Are you talking about 1987 or 1986, Senator?

Senator DODD. We are talking about 1987.

Mr. FLEMING. OK, 1987. That is still the case. The administration did not concur that there should be no cuts in the Medicaid budget under Gramm-Rudman-Hollings. The President's budget as submitted envisioned those cuts under Medicaid as well as, I believe the number is—I will have to check——

Senator DODD. Well, I have the President's fiscal year 1987 budget seeks Medicare cuts of $4.7 million in outlays by fiscal year 1989. It seeks a total cut of 11.3 percent in current law projections. Under Gramm-Rudman, Medicare is subjected to a special procedure, as you know, under the law would limit any sequestration to 2 percent in a fiscal year. So that in fact, you come out better under Gramm-Rudman than you do the President's budget in dealing with Medicare. Is that true?

Mr. FLEMING. That is true.

Senator DODD. All right. How about Mr. Sabatini? You are not really affected in the sense of Social Security.

Mr. SABATINI. Not really.

Senator DODD. How about veterans, Dr. Mather?

Dr. MATHER. Senator, I will take this opportunity to amplify a little on my answer to Senator Chiles, since I now have some figures I can work with.

I would reaffirm the statement, though, that the reductions in workload will not adversely affect quality, and it is simply because of those cutbacks of dollars and staff that it resulted in us proposing in the President's budget that we will reduce patients treated in our hospitals by about 57,205, and outpatient visits will be reduced by about 1,114,000.

Senator CHILES. So you would cut the number of patients you treat, and you would cut the number of outpatient visits?

Dr. MATHER. That is correct, Senator.

Senator DODD. Well, my red light is on, but my point here is that Gramm-Rudman is a very important issue to be discussed, and today we are discussing how Gramm-Rudman affects the elderly. But as I look at it, in terms of housing, Medicare and veterans, Gramm-Rudman is a blessing by comparison to what is being proposed by the administration.

Dr. MATHER. Senator Dodd, could I just complete the direct answer to your question, and that is the comparison of pre- and post-Gramm-Rudman in fiscal year 1986, we end up with dollars that are greater than the President's budget submitted for fiscal year 1987.

Senator DODD. Thank you, Mr. Chairman.

Chairman HEINZ. Senator Dodd, thank you.

Senator Warner.

Senator WARNER. Thank you, Mr. Chairman.

STATEMENT BY SENATOR JOHN W. WARNER

I will be brief, because I know we are anxious to move on to the next panel, and I will submit my statement for the record.

Chairman HEINZ. Without objection, your statement will be included in the record.

[The prepared statement of Senator Warner follows:]

PREPARED STATEMENT OF SENATOR JOHN WARNER

Mr. Chairman, members of the committee, I would like to express my strong appreciation for the opportunity of participating in today's hearing.

I can think of no issue more timely than the need to accurately convey to the Nation's elderly what they may expect from their government as a result of Gramm-Rudman-Hollings. Too often in recent years, the older citizens of this Nation have had to cope without needed information or, in some cases, they have had to cope with actual misinformation.

The single greatest service which we as an oversight committee can render to the Nation's elderly is to assure that they are adequately prepared for the impact of the Gramm-Rudman-Hollings era.

Our witnesses today have been invited to appear as representatives of those Federal agencies most essential in maintaining Government supports of the elderly. We will have an opportunity to examine income security, health care, housing, medical research, community services, all of which are critical to our Nation's senior citizens.

It is our goal to make known, and as accurately as possible, exactly how cutbacks will be made and what discretion, if any, has been provided for the agencies in setting priorities. We will then hear from representatives of the elderly themselves, and learn what they foresee as their most pressing need under Gramm-Rudman-Hollings.

I am particularly pleased to note that the National Association of Retired Federal Employees will be represented. NARFE, as this association has come to be called, has more than half-a million members, thousands of whom I am privileged to number among my constituents.

As the committee is well aware, the Nation's Government retirees, both civilian and military, will receive no inflation protection adjustment this year. Their COLA was the first victim of Gramm-Rudman-Hollings, and no single other retiree group stands to suffer greater impact.

Mr. Chairman, we have a lot of ground to cover today, and I certainly do not wish to further delay our proceedings. I would only say that the Nation's elderly makes up that segment of the population which, in many cases, is the least able to protect itself.

The loss of earning power in the face of inflation, growing medical problems and costs, the need to maintain adequate shelter and nutrition, all of these must be faced on a daily basis by many thousands of our senior citizens.

We owe them—in fact, it is our duty—to clearly provide for them what changes Gramm-Rudman-Hollings may bring to their lives.

Senator WARNER. I would like to make one brief observation. All of us have our sources of information on this subject, and I am privileged to have a source in my mother, who is 98 years old, and from her many friends.

It is surprising the measure of courage that I detect in this category of Americans who really are least of all able to take these cuts. But it is a measure of courage that they will take their share providing that share is fair. I can think of no obligation on this committee and on the Congress than to assure that whatever cuts come under Gramm-Rudman on our elderly are fair.

Thank you, Mr. Chairman. I feel that we should move on to the next panel just as quickly as we can.

Chairman HEINZ. Very well. Senator Warner, thank you very much.

Senator Hawkins.

Senator HAWKINS. Thank you, Mr. Chairman.

STATEMENT BY SENATOR PAULA HAWKINS

My concern is twofold. I feel that America has drifted toward this spot in history where the family has so deteriorated until we warehouse the elderly.

I visit almost monthly a congregate meals center. I visit a center for senior citizens who in many instances have outlived their children or been abandoned by their children.

Now, I must say I did not vote for Gramm-Rudman. I felt I would rather pick and choose as we went along, but I am not going to wring my hands about, "I told you so."

But there are many services that have to be delivered to these people who come to the State of Florida. We are blessed in having their wisdom and their expertise and the many talents that they bring to us in picking Florida for their final home.

But we need police attention; they need legal information; they have to have consumer protection. They are so weak and so vulnerable in many instances, with no one to protect them. And I am talking about the oldest, I am talking about the most precious—our children and our grandparents.

In the center, we can kind of make out for ourselves. But with the absence of families assisting these seniors, the weakest and the most precious among us, I am vitally concerned with a lot of problems, all of them represented across this table, all of them making great impacts upon our State of Florida.

Mr. Suzuki, you mentioned that every congregate meal center might have to cut back on services in delivering meals to about four or five individuals. Is that correct?

Mr. SUZUKI. Up to four meals a day, that is correct; that would be under the straight 4.3 percent reduction, without figuring the increased contribution for productivity. We are hoping it will be overcome.

Senator HAWKINS. Our population increases daily in Florida.

Mr. SUZUKI. Yes.

Senator HAWKINS. And that is coming from another State—some are not coming from another State, I must say, but other countries. You know, we are in a catch-22 position. We play host to these people who want to come to our beautiful "Venice" in America and live out their lives, and at the same time as that number increases, we have to increase services; we cannot cut in Florida—unless you can work out some magic where the States that are losing population will give us some money.

Mr. SUZUKI. It is very clear that if we are not increasing services, we will have reductions. The other thing that happens is program participation by the elderly themselves. In 1980 they contributed something around $9 million; this past year in 1985, they contributed $120 million.

So in some ways, the participants themselves share in the costs. Some of those increases in contributions, as well as efficiencies in purchasing, menu planning, et cetera, we hope will overcome the reductions.

I make no contention that with the cut, we are going to expand as much as we can.

Senator HAWKINS. So you do not have any economies of scale—the more you serve, the less it costs?

Mr. SUZUKI. No. There are obviously various things such as bulk buying of commodities and various other things which we are pursuing. It really is not A.A; it is really the States and the area agencies located across the country who are trying to get a bigger bang for each dollar in terms of services to the elderly.

Senator HAWKINS. Are there some States that do better than others?

Mr. SUZUKI. We are not in lockstep, no. Some States are more aggressive in their pursuit of various measures.

Senator HAWKINS. I will be watching closely, and I would like to work with you on this program.

Thank you.

[The prepared statement of Senator Hawkins follows:]

PREPARED STATEMENT OF SENATOR PAULA HAWKINS

As many of you know, my home state of Florida has the largest number of senior citizens per capita in the nation. Our climate is warm, opportunities abound, and Florida has become a mecca for a great number of this nation's retiring and senior citizens. May I add that Florida has greatly benefitted from the expertise and wisdom of senior citizens with a wide range of experiences and knowledge.

But Florida's senior population also presents some very unique challenges to our state—challenges which will confront our nation as a whole in coming years as we continue to witness the graying of America.

Housing and day care services must be provided for the elderly who have no family to turn to. Consumer fraud, violent and domestic crime against the elderly are rampant. Legal, police and consumer protection must be provided. Meals-On-Wheels and Congregate Meals must provide square meals for those who are shut-in and unable to shop and cook for themselves. These services are absolutely essential for the elderly—many of whom depend upon their social security checks as their only source of income and are unable to fend for themselves.

The question we must ask, therefore is: where can we cut without making cuts hurt?

As Gramm-Rudman-Hollings is contemplated by this Administration and this Congress, some very difficult choices will have to be made. We must ensure that cuts not have an adverse impact upon the oldest, the most vulnerable, and certainly the most precious of our citizens—our parents and grandparents—our nation's senior citizens.

Senator EVANS. Mr. Chairman.

Chairman HEINZ. Yes, Senator Evans.

Senator EVANS. Just before this panel leaves——

Chairman HEINZ. I was not going to dismiss them. I think there are some people who have additional questions for them.

Senator EVANS. I wonder if we could pose one question to the whole panel, because I think there has been a lot of misunderstanding.

Chairman HEINZ. Well, perhaps, but——

Senator EVANS. If you want to wait until we get to a second round, when you reach me.

Chairman HEINZ. Not necessarily. The chairman has something in mind.

Senator EVANS. OK. I would certainly defer to the chairman.

Chairman HEINZ. First, the committee has published and made available a committee print, "The Impact of Gramm-Rudman-Hollings on Programs Serving Older Americans in Fiscal 1986." The purpose of this hearing—and I have a suspicion this is what Sena-

tor Evans was going to say, though I do not know—the purpose of this hearing—and I have a few questions for our witnesses—is to clarify for the record whether what amounts to a formula cut, a buzz saw sawing through large and small timber alike, makes sense; is it rational or irrational? Do the results bring about fairness or irrationally unfair results, or are they tolerable?

Now, clearly, at 4.3 percent, it is going to be hard to find any evidence of the world coming to an end. On the other hand, examining carefully your testimony, I think we are going to be able to come to a number of conclusions.

We are not, by the way, here to particularly compare the administration's 1987 budget to where we are today. There are a lot of things many of us do not like about the 1987 budget.

The real question is what would a 1987 Gramm-Rudman, instead of being 4.3 percent but 30 percent, result in, and will that stimulate us to do the job we did not do in fiscal 1986 which has brought about the buzz saw approach to budget cutting.

My question to Franklin Williams at NIA is this. You have described, Frank, in your testimony that there are a number of cuts such as a 22-percent cut in trainees. You have very few trainees to begin with. These trainees will train other people to take care of the elderly. You have described a 5- to 10-percent cut in grants to research, research which I assume could yield tremendous possible savings to us both in suffering and in costs if they are successful.

From your point of view, does the buzz saw approach, the 4.3 percent, lead to a restructuring of priorities that is out of whack with what your sense of policy priorities ought to be, and if so, how?[1]

Dr. WILLIAMS. Well, essentially, Senator, the way the Gramm-Rudman-Hollings cuts were imposed equally across all of our mechanisms, there is a little room in certain categories, but overall, we are locked into cuts that just about have to affect total mechanisms.

Unless we reprogram, for example, in the training area, we do not have any flexibility whatsoever. In the Alzheimer Disease Research Centers, we have no flexibility.

Chairman HEINZ. Now, if you had to take the same amount of cuts but could do it setting your own priorities and with discretion, would you do it differently, and if so, how?

Dr. WILLIAMS. We would certainly modify it some some degree. Now——

Chairman HEINZ. Where do you think cuts are being much deeper than you would prefer, and where would you offset them accordingly?

Dr. WILLIAMS. The single place that is the most obvious is a modest part of our budget, but it is the most obvious one, and it is in the training area. The equally important one is in our centers area.

But to shift funds, for example, if we had the freedom, would mean that we would still have to cut into some other research or contract areas which are important; but we have to make those priority decisions all the time.

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[1] See appendix, p. 117, for more questions and answers from the National Institute on Aging on the effects of Gramm-Rudman on their policies and programs.

For example, we have consciously done nothing in the last couple of years to promote more research on pharmacology and aging. This is an important area, but we have had to make the judgment that it did not offer as much scientific promise at the moment as work on Alzheimer disease or molecular genetics or the oldest-old, or a few other areas, which Congress has also concurred in.

So we would have to take money out of some areas that are important, but not as high priority. Right now, we have very little flexibility in any of that.

Chairman HEINZ. Now, Mr. Sabatini, you have mentioned in response to Senator Evans the contingency reserve and the uncertainty about how you are going to handle the new law on disability reviews. As I understand what is involved, you will have to absorb a tremendous loss of worker years. As I understand it, coupled with the cut in FTEE's, you will lose 3,242 worker years on an annualized basis, and you are going to lose it in 1 day. On February 28, you will have the number of workers that you have today. On March 1, you will in effect have to take action to get down to that level very quickly. We are one-third of the way through the year already.

Isn't that going to affect service delivery, and if so, how?

Mr. SABATINI. Senator, we think that we can minimize any adverse effect on service delivery. Let me just clarify a couple of points.

First of all, the major portion of the work with regard to the implementation of the 1984 disability legislation is going to be performed by the State disability agencies. The funding for the State agencies is immune from sequestration under the Gramm-Rudman Act. Therefore——

Chairman HEINZ. So you are saying it is not going to have a major impact.

Mr. SABATINI. Not on the implementation of the disability legislation, not on the State agencies——

Chairman HEINZ. Is there going to be any impact, and if so, where?

Mr. SABATINI. We think that there will be an impact—but in some respects, we are very fortunate, because the construction of our appropriation account is such that we have a great deal of flexibility in terms of where we will be taking the various cuts that are going to have to be taken under the Gramm-Rudman Act. And as a result, we have very carefully selected those areas where we can take the reductions for fiscal year 1986 to minimize the impact, recognizing that they are reductions and they are real reductions, and we are not going to be able to do some of the things that are desirable and things that we would like to do.

Chairman HEINZ. But what are they?

Mr. SABATINI. Well, for example, one thing that is to our benefit is that in our fiscal year 1986 appropriation, we got $30 million more than what our requested appropriation level was for administrative expenses. And upon enactment of that appropriation——

Chairman HEINZ. In fairness to my colleagues, my time has expired, but let me ask you to provide certain specific information in writing, and we will work with you so that it is concise.

Mr. SABATINI. No problem.

[Subsequent to the hearing, the following was submitted for the record:]

Gramm-Rudman Reductions

FY 1986 Limitation on Administrative Expenses

SSA is required to take a uniform 4.3 percent reduction in each program, project and activity under Gramm-Rudman. For the Limitation on Administrative Expenses, SSA's largest account which covers the administrative costs of the trust fund and SSI programs, this includes the contingency reserve, automatic data processing and telecommunications, and the remainder of the budget for all other administrative expenses. A breakdown of $144.4 million in FY 1986 reductions is provided in the table below:

Limitation on Administrative Expenses	Budget Authority In Thousands
Available Budgetary Resources	$3,992,486
Reductions	
1. Contingency Reserve	-6,235
2. Automatic Data Processing and Telecommunications	-12,272
3. All Other Administrative Expenses:	
a. Personnel Compensation	-95,148
1) Maintain the FY 1986 President's budget level for full-time equivalents (a reduction of $30 million from the FY 1986 appropriation level).	
2) A reduction of 1,338 workyears of overtime, from 3,113 or 3.8 percent of total workyears in the FY 1986 appropriation to 1,775 or 2.2 percent of total workyears in SSA's current request.	
3) A reduction of 724 workyears to be achieved by limiting SSA participation in this year's summer youth employment program.	
b. Travel	-5,090
c. Transportation of Things	-17
d. Rents, Communications and Utilities	-4,063
e. Printing and Reproduction	-1,759
f. Other Services	-10,436
g. Supplies and Materials	-3,895
h. Equipment	-5,442
Subtotal All Other	-$125,850
Total Reduction	-$144,357
Budgetary Resources After Reduction	$3,848,129

Chairman HEINZ. One other question I would like to get an answer to in writing from Mr. Fleming at HCFA is this. As he well knows, many Peer Review Organizations are in the process of assembling very necessary documentation to sanction specific providers for quality of care problems.

It is my understanding that one sanction costs between $10,000 and $15,000 to prepare and to follow through with. There is a $16.8 million sequester that hits the PRO's. I would like to know in writing—we will not take the time to get into it here—whether HCFA will have sufficient funds to support the PRO's ongoing activities both in terms of quality and in terms of enforcement, which is costly.

[Subsequent to the hearing, the following information was received from HCFA for the record:]

We have set aside funds to meet PRO's requirements for sanctions activities as well as other unanticipated changes to the Scope of Work. The Gramm-Rudman sequestration will not adversely impact PRO's ability to take prompt sanction action where conditions warrant.

Chairman HEINZ. I thank my colleagues for their patience.

I believe Senator Chiles is next.

Senator CHILES. Thank you, Mr. Chairman.

Mr. Fleming, if the freeze on physician fees with its attendant protections for the beneficiary goes off as proposed by the President's budget, can you tell us what is going to happen with regard to the assignment payments to be made by the beneficiaries? Will the increases be passed on to them? Do you not think that shifts in the costs that have been held down for the last 2 years are now going to be passed on to beneficiaries?

Mr. FLEMING. Senator, we are of course looking at the whole area of physician reimbursement and reform of that system. We are very encouraged that almost two-thirds of the part B Medicare bills are now accepted under assignment; only about one-third are not.

Clearly, if the freeze goes off and physicians increase their rates, that is going to fall on those beneficiaries who are not going to physicians who accept assignment.

Senator CHILES. So it is going to increase; it is going to fall on them if the freeze goes off? That is certainly going to be an impact and a burden.

Mr. FLEMING. As I said, Senator, we are looking at reform of the physician reimbursement system and would——

Senator CHILES. While you are looking at it Mr. Fleming, don't you think we ought to be doing something about that before we take the freeze off? In other words, if we do the one and we are looking at the other, you have already told me what is going to happen, which we all know that the people are going to be zapped with those increases.

Mr. FLEMING. We will be reporting to Congress on that physician reform, and we expect that to be of significant help to the beneficiaries.

Senator CHILES. Well, I hope so. I am continually concerned about these things where we do one thing, thinking we are going to get some efficiency, or we are going to produce positive reform, but we wind up with a punitive provision.

Mr. Sabatini, according to your budget officials, after sequestration the full-time level for Social Security Administration staffing is going to be 76,349 in 1986. The dollar figures, however, in the President's budget for the next 5 years for the Social Security Administration costs, again reflect your plan to reduce staffing by 17,000 persons. That is the same number of cuts you proposed last year, and at that time less than 5,000 of those reductions were attributed to computer modernization.

The remaining 12,000 positions were due to come from other vague changes that were going to be made. It is now 1 year later. Can you tell me what detailed reports you have available which demonstrate how staffing cuts in the magnitude of 12,000 people can be made without affecting the level of service to beneficiaries?

Mr. SABATINI. Senator, the staffing cuts in the long-range plan, the 6-year plan for a reduction of 17,000 full-time equivalents is a target and a direction in terms of where the Agency will be going from 1985 through 1990. Much of that reduction, as you indicated, is based on the successful implementation of our systems modernization effort.

In addition, we are hoping to save and bring about efficiencies through improved processes, changes in policies, in procedures, that will make our workloads less labor intensive, but still allow us to provide an adequate level of public service. We are not going to make these reductions at the expense of public service and the service that we deliver to the public.

Senator CHILES. Well, I asked you at the appropriations hearings last year if you would give me some detailed plans, and I have not received them. I hope the chairman will be more successful. I repeat that request, to you now. If you are going to give me the language, "modernization," I want to see how you are going to do it.

Mr. SABATINI. But the plans are detailed each year in our budget request, Senator. As we formulate the budget and put the budget together for submission each year, we have a direction or a target that we are moving toward. And as we can really quantify and measure the progress that we are making and be sure that that progress is in fact real, we are then reflecting that in the yearly budget submissions.

Senator CHILES. So the President's budget gives us a 5-year budget projection.

Mr. SABATINI. A 5-year budget target, yes, sir.

Senator CHILES. A budget target. So those figures are just sort of taken out of the sky, and you implement them 1 year at a time, or do you have some basis for——

Mr. SABATINI. No. We indicated that those savings—approximately one-third of those savings—would come from our systems modernization plan. We expected some significant savings coming—around 2,000 of that 17,000 would be derived just through reductions, or streamlining the Agency's overhead, in the staff-level positions as opposed to operations- or workload-driven positions, just through improvements in our processes, and the elimination of what may be unnecessary or unproductive workloads and burdens that are being placed on the operating people in our Agency, and we expect significant savings.

Now, we have said, and we said it at last year's appropriation hearing, that this 17,000 number is not carved in stone; it is a general, estimated target that we are going to move toward on a year-by-year basis, and we will be looking at those numbers and those targets each year as we put together the budget.

I would like to point out, Senator, that at the close of this fiscal year, the Social Security Administration will be approximately 8 percent smaller in terms of FTE utilization than it was 5 years ago. By the same token, because we proceeded very cautiously and very prudently in implementing these changes and making sure that they are beneficial, by every measure we have that indicates the level of timeliness and quality of service to the public, we are in better shape than we have ever been.

We are not going to make these reductions, Senator, at the cost of public service, I assure you of that.

Senator CHILES. Well, I join with the chairman in asking to see your figures, as you produce any figures that will show us how this would be done. And I would have to say, I do not know what your measure of it is, but when I am talking to people and they are telling me how long they are having to wait at the Social Security offices in the State of Florida, I am not getting this same answer that you are getting, that it is the same level of services. There are tremendous waits, tremendous times, and it is not better than it was 8 years ago in the State of Florida in regard to those waiting times.

Chairman HEINZ. Senator Chiles, thank you very much.

Senator Wilson.

Senator WILSON. Thank you, Mr. Chairman.

Mr. Fleming, let me pick up with you the line of questioning which Chairman Heinz was pursuing in his last question for the record, that having to do with the impact of Gramm-Rudman-Hollings on peer review organization activity.

I believe you are aware that recently, in January, I completed on behalf of this committee a rather extensive hearing in Los Angeles, aimed at determining the extent to which there exists a problem under "prospective payment," and specifically under what appear to be overly restrictive diagnostic-related groups resulting in premature discharge of Medicare patients.

I am aware that HCFA currently has published a new scope of work activity for the second round of contracts. What I am interested in is that that clearly—and I commend you for this—is aimed at improving quality assurance. And I think that is definitely the direction that we need to go in.

On the other hand, it would appear that by doing so, you are embarking on a more ambitious program. And the question that arises is whether or not under the existing system, totally apart from considerations of Gramm-Rudman, and then considering what the aggravation may be from Gramm-Rudman, whether or not the kind of peer review activity on the part of the PRO's is going to be curtailed in a way that does not allow this to go forward.

I am interested specifically in how you intend to fund the PRO activity; if, in fact, to avoid cuts, you are going to find funds elsewhere—is it going to be contingency funds? Are you faced now with the necessity for the revision of existing PRO contracts?

My own judgment, I should tell you, at the conclusion of those hearings was that there was need to revise some of the DRG's, some of the diagnostic-related groups, because they were too inflexible to deal with the problem of complications which so often occur in the elderly patient. You have got someone who is not simply afflicted with a single malady, but whose condition is complicated by collateral afflications.

Mr. FLEMING. Senator, as you know, the PRO review process is extremely important to the quality of care, and the way the numbers turn out under Gramm-Rudman-Hollings, we are not going to have to reduce the level of activity of the peer review organizations.

We had roughly a $30 million carry-forward out of the 1985–86 contracts. Part of that was used in letting new PRO contracts in the States of South Carolina and Massachusetts. As it turns out, about $16 million-plus remained, and that is exactly the cut that is needed under Gramm-Rudman-Hollings. We will be able to absorb the Gramm-Rudman-Hollings cuts out of that carry-forward. That will leave the remainder of 1986, 1987, and 1988 intact, so we will not have to make any reductions in the intensity or the level of work of the peer review organizations.

Senator WILSON. Excuse me. Does that refer to 1987?

Mr. FLEMING. Yes, sir.

Senator WILSON. Let me make an optimistic prediction. I think that your new scope of work for this second round of contracts is really going in the right direction, because to the extent that you can achieve quality assurance by prescribing a more flexible standard, you probably are going to lessen the requirement over time, at least, for the sort of policing function, the frequency and intensity of audit necessary. And I think what may be even more significant is that by that improved quality of assurance possible from a more realistic standard, you will not be forcing physicians into the position of trying to make their patients fit a catalog when in fact their real condition does not fit that, and you will not be forcing the hospitals into the situation that so many of them seem to be in as they look over the shoulders of the attending physician, in pressuring him to conform to this catalog which is actuarially fair, but one that does not take account of the obvious differences in individual conditions. Before the hearing had ever taken place, there had surfaced in California something in the neighborhood of 300-plus cases where the conditions really had not complied with an actuarially fair standard in the diagnostic-related group.

I think there is a clear need for a severity-of-illness differential to give that flexibility.

Mr. FLEMING. Yes.

Senator WILSON. Thank you, Mr. Chairman.

Chairman HEINZ. Thank you very much, Senator Wilson.

Senator Burdick, and then Senator Evans and then Senator Hawkins.

Senator BURDICK. Thank you, Mr. Chairman.

Mr. Suzuki, I think we will continue where we left off. We were talking about the Meals-on-Wheels and nutrition services under the 4.3-percent cut.

How will that affect the number of nutrition sites around the country?

Mr. SUZUKI. We do not believe there will be any change in the number of sites; in other words, there will be a reduction in the number of meals at particular sites, but we have in excess of 14,000 sites under the aegis of the 668 Area Agencies, and we do not think there will be any impact in terms of the reduction of sites. There will just be a reduction—a minimal reduction, we hope—in the number of meals.

Senator BURDICK. In other words, you are saying that the reduction in the number of meals will not necessarily mean a reduction of sites.

Mr. SUZUKI. We have no indication, no reason to believe, that there will be any reduction in sites.

Senator BURDICK. Well, let us look at Gramm-Rudman beyond March 1. Suppose the law is upheld and that is the law of the land. What happens to nutrition at that point, and Meals-on-Wheels in particular?

Mr. SUZUKI. We have issued an allotment to States for the whole year—that is, they know what they are getting for the whole year with the Gramm-Rudman-Hollings reduction. Assuming that will continue, we have signaled through our allotment process what the States and the Area Agencies in turn can expect for the year. And you know, that 4.3 percent had to be absorbed through three-quarters of the year rather than throughout the whole year.

Senator BURDICK. Yes; but this Gramm-Rudman bill will be for more than a few months; it is going to be a matter of permanent legislation. What happens on a yearly basis to these nutrition areas?

Mr. SUZUKI. Again, I think the thing was said by the other witnesses—there is no way as I understand it to predict what the shortfall will be and what the automatic provision for 1987 or 1988 will be.

Senator BURDICK. Well, we passed the Gramm-Rudman law; you know what the cuts are going to be.

Mr. SUZUKI. As I understand the concept, it is very clear that the budget has to be reduced to a certain level. I think the question is in the budget process—between now and September where will that figure be. There is no way that I know of to estimate what the percentage cut, if the automatic provision goes into effect in 1987, will be.

Senator BURDICK. My question assumes that Congress does not do anything and accepts Gramm-Rudman as is. That is what I am assuming in my question. Then what happens to this program?

Mr. SUZUKI. Gramm-Rudman stays as is, but I am not sure what the budget process will be for 1987. So I have no way of estimating what the automatic provision percentage would be in 1987.

Senator BURDICK. Well, we know to keep the deficit to $144 billion, there are going to have to be some cuts.

Mr. SUZUKI. Yes.

Senator BURDICK. Yes.

Mr. SUZUKI. And as far as Senator Dodd's question, which I did not answer, the Older Americans Act Services Program in the President's budget for 1987 is restored back to the 1985 pre-

Gramm-Rudman-Hollings level. So that as far as we are concerned, in the President's budget, there is no cut predicted.

Now, what will happen under the deficit reduction act, I cannot estimate.

Senator BURDICK. Well, you are an administrator. If Gramm-Rudman becomes the law of the land, have you any idea how much you are going to cut?

Mr. SUZUKI. I think we would have to predict what Congress will do in the 1987 budget, and I do not know what that is.

Senator BURDICK. You are not listening to me. I said assuming that is the law and we accept it, what happens?

Mr. SUZUKI. It is really the question of the percentages, and I cannot judge that at this point.

Senator BURDICK. Thank you.

Chairman HEINZ. Senator Evans.

Senator EVANS. Mr. Chairman, let me try to clarify this. I think that it is pretty clear from the testimony of the witnesses so far that we will get through the 4.3-percent cutback reasonably well for 1986. It might have been better to have a little more flexibility, but we will make it through all right.

Now, turning to 1987, there have been a lot of horror stories about what will happen in 1987. Gramm-Rudman only requires for 1987 that the Congress and the President submit budgets and pass budgets that have a $144 billion limit on the deficit. And that was not declared unconstitutional. As long as we live up to that law, there will be no recisions by definition in 1987.

Now, it seems to me—and I would just ask all of you not to answer, but to say if you disagree with the statement—with that prelude, if there is a deficiency in people's minds about the budget in any one agency, it is not Gramm-Rudman; it is the decision in this case of the President to submit a budget that is either short or long, the priorities are set by choice and not by anything else—it was choice to increase the military budget and choice to decrease some of the other budgets and choice not to raise taxes. The only thing on which there is no choice is that the end result has to be $144 billion. Is there any disagreement with that?

[Pause.]

Senator EVANS. OK, I think that is where we really are. So we have full choice, just as the President had full choice. We can raise taxes and keep programs up; we can lower the military budget and increase the domestic budget; we can buy the President's budget in toto. And it does not necessarily have to result in any cuts, for that matter.

Let me ask one specific question of Mr. Knapp. On page 5 of your testimony you suggest that there would be a recision in a little more than $5 billion in budget authority for fiscal 1986, and that will produce outlay savings which you characterized over the next several years.

Recisions do not fare very well in Congress, usually. Have you looked ahead to decide what you will do and how you will accommodate those expected savings in fiscal 1987 if the recisions are not approved by Congress in fiscal 1986?

What would you do? And I guess the figure is—you have got outlay savings that you are expecting of $1.3 billion in fiscal 1986 and $2.7 billion in fiscal 1987. That is $4 billion.

Mr. KNAPP. Yes, Senator, and it projects out to an outlay saving, again from current services, of $6.4 billion in 1991, which as I said in the statement, under the President's program and within the Government budget as a whole, is part of the budget that is designed to show a path other than automatic reductions for meeting the deficit reduction targets.

Those, by the way, are not all housing; those are Department-wide figures there, not just the housing programs.

If the recisions are not enacted, the outlay savings are not achieved, which in other words is an invitation to taking the automatic across-the-board cuts instead.

From our perspective——

Senator EVANS. Or for Congress to pass a lower budget, and you would have to decide where the cuts—that is what I am asking you.

Mr. KNAPP. A lower budget somewhere else, yes.

Senator EVANS. Well, if it is within HUD, what are the lowest priorities remaining? Where would you—if you were obliged to make the $4 billion cuts to meet those outlay savings for 1986 and 1987, and the recision was not approved by Congress, where else would you look?

Mr. KNAPP. Well, I think at this stage, Senator, that is pretty much entirely within the Congress. If the Congress does not accept the recisions, or does not enact reductions or budget authority levels that produce those savings, we cannot just impound. So again, we always are in a position of having to spend, having to utilize what the Congress gives us.

Senator EVANS. Of course. I guess my direct question is if Congress—and I am not on the Appropriations Committee—but if Congress said to you, "we are not going to pass recision, we are now working on the 1987 budget, and you in directing HUD are going to be required to take what you have asked for and reduce it by $4 billion in 1987," how are you going to do it? Where is your lowest priority, and how would you meet that alternative? You cannot put that off on Congress if they ask you the question.

Mr. KNAPP. I would assume that we would again propose the fiscal 1987 budget that is presented in the President's budget. It would be more difficult to meet, because the base for it in 1986 that is presented would not have been made, so I think there would have to be a sharper disruption in getting there. But we have not focused on what the priorities would be if we were going halfway there.

Senator EVANS. I will submit a written question, Mr. Chairman, and see if I can get a more specific answer.

Chairman HEINZ. We encourage all the witnesses to be as specific as possible in their answers.

Senator Hawkins.

Senator HAWKINS. Yes. I still have a lot of concerns about some of the ways you are proposing to do this. I know the easy way is to take a sliderule, or a computer, and cut 4.3 percent across the board. But with ever-changing populations in my State of Florida,

all cuts must be made so that the most vulnerable elderly are protected.

The Veterans Administration is going to be in chaos in my State, because of the high proportion of retired military personnel. And it is my understanding that if you propose to cut 4.3 percent, the "meat ax" approach—wouldn't it be better to do high demand/low demand, and look at each situation individually? Just take veterans.

Dr. MATHER. Senator, I think you were addressing that question to me.

Senator HAWKINS. Dr. Mather.

Dr. MATHER. I would like to respond first of all as a program manager in a general sense and say that I think one needs, really, at a time when resources are being reduced, or when we have decremental budgets, as much flexibility as possible to make those decisions as to what is going to be cut and in what category.

We do know that there are certain moneys in our health care budget in which we would say there are fences around them. The formulas have to apply, as Senator Heinz pointed out "the buzz saws," in very clear ways in those appropriations.

But apart from that as a program manager, as a general statement, I can assure you that decisions about where in the aggregate, these budget reductions are going to come on a State-by-State basis are going to be implemented on the basis of looking at workload. Indeed, the State of Florida will not experience the kinds of reductions on March 1 as other parts of the country that do not have the same kind of veteran workload. They do not have veterans, as it were, beating down their doors, waiting to get into the facilities.

So in the implementation of these cuts in the present reduced budget, it will be carefully done as to where the workload is.

Senator HAWKINS. Thank you.

But was your testimony that you were going to turn away 20,000—was that the testimony—20,000 veterans, long-term patients, turned away?

Chairman HEINZ. Last year, I think you turned 20,000 veterans away.

Dr. MATHER. Mr. Chairman and Senator, we have consistently said that the capacity of the VA's health care delivery system is essentially inadequate to take care of everybody that would like to get care in the agency; and further than that, there are certain States, including Florida, in which there is greater difficulty in getting access to care in VA Medical Centers as opposed to other parts of the country.

In terms of an absolute figure, Mr. Chairman, we have stated elsewhere that approximately 20,000 who were unable to get access to the system last year. That does not mean that any veteran individual could not have chosen to go to another VA center in another State and obtain that care.

Chairman HEINZ. From Florida to Alaska, for example.

Senator HAWKINS. Yes; like from Florida to South Dakota. My gosh, these people are lucky to be able to just provide the basic necessities now.

I visit on almost a routine basis these veterans hospitals in my State. I want to tell you, if you felt wonderful and were really

perky and wanted to have a great time that day, you would come out of that visit feeling so miserable and depressed that you would wonder, is this the way we want to treat those who have served our country and risked their lives? Did they know that when they signed up; that was part of their contract?

They wait for hours in line for their prescriptions over here, sometimes 4, 5, 6 hours just to get a prescription. Over here is a long line waiting for surgery. I have seen them turned away from surgery. And only because I am recognizable, they come over and say, "Do not believe that man in the white coat who is telling you all this stuff. Let me tell you what really hands-on is here." And it is miserable, and I really do not like to see us treat any class of citizen that way, especially in the year that we are going to be celebrating the Statute of Liberty with the torch, "Bring me your poor, your tired, your listless, your tempest-tossed"—and to Florida, I do not mind, but we are going to have to have the money, and I am going to tell you, you are in a whale of a fight with this Senator.

We are going to see that it is earmarked and goes where the services are. And I do not care about cutting administrative costs. I think we get a lot more today for the money than we did in the past with the new services delivery systems that you have inaugurated, and I applaud you for that. You can cut them some more and let us have the end-product. When it comes to Meals-on-Wheels—I am on the Agriculture Committee, and we have got so much food in storage it is nauseating. We have hunger in Africa, hunger in America, and we are paying outrageous storage costs on food. We are turning away four people a day who do not have Meals-on-Wheels?

I think we can sit down and talk to another agency that is storing the blooming stuff—where it is molding.

I mean, we do dumb things. We do dumb, dumb things in this Government. And when you have to cut 4.3 percent, it is not much. It really is not. And I know that is the will of the majority of the Senate and the Congress. But I am telling you that I think there could be a lot of economies of scale, a lot of cooperative measures, new innovations in delivery of services that we could take care of these people that have nobody to take care of them.

And the senior citizens of today worked. I want to tell you it is a generation that were not on welfare. People over 65 did not have the advantage of being on welfare. We are soon going to come into a new system where they may have been the second generation on welfare, but not this generation. This generation worked, saved their money, and if God was really good to them they are going to live to be over 85, average age 82, where they thought maybe 70. Property taxes are escalating in every State so dramatically until, if someone thought smart and bought a house, a little, tiny house, they were able to provide a roof over their heads, but now they have got to pay the taxes.

My letters say, "If I pay my property taxes, I cannot pay the rest of my grocery bill, my utility bill." And then they ask, "How would you do it, Senator?" And they send me a little handwritten thing on an envelope, "Here is what I have got. Here is what it is going to cost, basic necessities."

Where are we going to take care of these people? I know you are an exact science department here today, and you have to make the numbers turn out for how the Senate and the Congress vote. I think that if it were your mother, or your father, or your grandmother or your grandfather, or someone else's, that we have a great reputation in America for taking care of other countries—and I am fed up with taking care of them and not taking care of our own parents, whether they be veterans, mothers, grandmothers, grandfathers, whatever.

I think we have to start applying that rule wisely and well, with great compassion to take care of this generation of people, 65 or older, whether in my State or any State. I am just telling you I think we can do it better, smarter, and we should.

This committee, I am sure, will see to that.

Chairman HEINZ. Thank you, Senator. Very well-said.

Gentlemen, I very much appreciate your time. I anticipate there will be some additional questions submitted to you in writing.

Thank you very much for all your testimony and answers.

This panel is adjourned.

Chairman HEINZ. The next panel consists of Shauna O'Neil, the president of the National Association of Area Agencies on Aging, representing the Leadership Council of Aging Organizations. Ms. O'Neil is from Salt Lake City, UT.

Our other witness on the second panel will be Mr. L.J. Andolsek, the president of the National Association of Retired Federal Employees.

The Chair would observe, as he watches the six witnesses plus assistants leaving, that there were either a lot of "costs" or a lot of "savings" sitting right in front of the Chair and the members of the committee earlier today.

I am advised that Mr. Andolsek has a board meeting that he must attend to, and if Ms. O'Neil would not mind, I would like him to present his testimony first, if that would be all right with you, Ms. O'Neil.

Ms. O'NEIL. That is fine.

Chairman HEINZ. Mr. Andolsek, welcome. Thank you very much for being here. Please proceed.

STATEMENT OF L.J. ANDOLSEK, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, WASHINGTON, DC, ACCOMPANIED BY JUDY PARK

Mr. ANDOLSEK. Thank you, Mr. Chairman, very much. I have an executive board sitting downtown waiting for me, so I am going to leave my legislative expert behind to answer any questions that the committee may have.

Chairman HEINZ. Very well.

Mr. ANDOLSEK. The National Association of Retired Federal Employees, commonly referred to as NARFE, appreciates the opportunity to present our comments on the effects of the Gramm-Rudman-Hollings amendment on one group of older Americans, the 2 million civil service retirees and survivors whom our organization represents.

Since NARFE has just this week celebrated its 65th anniversary, and is therefore itself a senior citizen, it is perhaps fitting that we present testimony today before this Special Committee on Aging.

We feel certain this committee, perhaps more than any other, recognizes the importance of protecting the purchasing power of retirement income. It was in this important area that Federal annuitants were the first Americans to be directly affected by the passage of the Gramm-Rudman-Hollings deficit reduction scheme. The enactment of this controversial law abruptly withdrew the January 1986 cost-of-living adjustment, COLA, which had earlier been promised Federal retirees, just 3 weeks before it was to be paid and after the actual December 1, 1985 effective date.

Consequently, when January annuity checks were received, millions of Americans who had spent careers working for their Government in civilian and/or military service were denied the same 3.1 percent COLA which was being reflected in the retirement benefit checks of their neighbors who had worked in the private sector.

Who are these Federal annuitants? What makes them different from other retirees? Is it age? Well, the average age of the nondisabled annuitant on the rolls last year was 68 according to the Office of Personnel Management, and the average age of the civil service survivor is age 70.

Is it the benefit level? Well, the average annuity is less than $1,200 a month of fully taxable benefits, and the average survivor benefit is less than $500 a month.

Surely, these people are not significantly different from the private sector retirees who held similar jobs and worked full careers under Social Security and company pension plans.

What, then, is the difference? We submit the difference is as subtle, yet as destructive, as the roots of any form of discrimination. It is the many blaming the few for the problems of all. It is the strong attacking the weak to achieve easy victory. It is dividing the elderly by denying inflation protection to some. But above all, it is wrong. It is morally wrong. Inflation does not discriminate, and neither should inflation protection.

Federal retirees, like all older Americans, are clearly aware of the massive deficit problem which plagues our Nation, and they are willing and anxious to do their share to reduce that deficit. Since April 1983, inflation has reduced a person's power of the dollar by 10 percent, yet since that time, Federal retirees have received only one COLA of 3.5 percent. Thus, the Civil Service Retirement COLA, often criticized as "overgenerous," has forced retirees to swallow 65 percent of the inflation occurring over the past 3 years.

And the adverse effect of the Gramm-Rudman-Hollings amendment can cause further damage. If the automatic cutback procedure of the law is activated over the next 5 years, the purchasing power of annuities would be reduced by yet another 16 percent, according to a congressional study.

Federal retirees, like all older Americans, have a strong sense of fairness. That principle has been violated by the politically-maneuvered COLA policy. Rather than equally "sharing the pain" of deficit reduction, Federal retirees are "bearing the pain" of denied inflation protection while others are protected.

Last year, during the budget reconciliation process for fiscal year 1986, Congress went on record in favor of equal inflation protection for all the Nation's elderly. However, that policy was drastically reversed in December by the enactment of the Gramm-Rudman-Hollings amendment.

Now, coupled with the very real threat of continued erosion of purchasing power, Federal retirees, along with other senior citizens, are facing drastic cutbacks or total elimination of community programs which serve the elderly. Thus, as Congress considers the Nation's budget for the upcoming fiscal year under the constraints of election year politics and the Gramm-Rudman-Hollings amendment, we urge this committee to do all it can to—we beg this committee—to do all it can to see that deficit reduction does not disproportionately impact the earned retirement income of any one segment of older Americans, nor the proven and necessary programs which serve them well.

Thank you very much, Mr. Chairman.

Chairman HEINZ. Mr. Andolsek, thank you very much for being with us. I hope you get to your board meeting on time.

Mr. ANDOLSEK. We will.

Thank you.

[The prepared statement of Mr. Andolsek follows:]

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
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STATEMENT OF
THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE
SENATE SPECIAL COMMITTEE ON AGING
ON THE
EFFECT OF THE GRAMM-RUDMAN-HOLLINGS AMENDMENT ON
CIVIL SERVICE RETIREES

Friday, February 21, 1986

The National Association of Retired Federal Employees (NARFE) appreciates the opportunity to present our comments on the effects of the Gramm-Rudman-Hollings Amendment on one group of older Americans, the 2 million civil service retirees and survivors who our organization represents. Since NARFE has just this week celebrated its 65th anniversary, and is therefore itself a senior citizen, it is perhaps fitting that we present testimony today before this Special Committee on Aging.

We feel certain that this Committee, perhaps more than any other, recognizes the importance of protecting the purchasing power of retirement income. It was in this important area that federal annuitants were the first Americans to be directly affected by the passage of the Gramm-Rudman-Hollings deficit reduction scheme. The enactment of this controversial law abruptly withdrew the January 1986 cost-of-living adjustment (COLA) which had earlier been promised federal retirees, just three weeks before it was to be paid and after the actual December 1, 1985 effective date. Consequently, when January annuity checks were

received, millions of Americans who had spent careers working for their Government in civilian and/or military service were denied the same 3.1% COLA which was being reflected in the retirement benefit checks of their neighbors who had worked in the private sector.

Who are these federal annuitants? What makes them different from other retirees? Is it age? Well, the average age of the non-disabled annuitant on the rolls last year was 68 according to the Office of Personnel Management, and the average age of the civil service survivor was 70.

Is it benefit level? Well, the average annuity is less than $1200 a month of fully taxable benefits, and the average survivor benefit is less than $500 a month. Surely these people are not significantly different than private sector retirees who held similar jobs and worked full careers under Social Security and company pension plans.

What then is the difference? We submit the difference is as subtle, yet as destructive, as the roots of any form of discrimination. It is the many blaming the few for the problems of all. It is the strong attacking the weak to achieve easy victory. It is dividing the elderly by denying inflation protection to some. But above all, it is wrong. Inflation doesn't discriminate; neither should inflation protection.

Federal retirees, like all older Americans, are clearly aware of the massive deficit problem which plagues our nation, and they are willing to do their share to reduce that deficit. In fact, they already have contributed a great deal towards reducing spending through past COLA cuts and delays, only to see deficits continue to rise.

Since April 1983 inflation has reduced the purchasing power of the dollar by 10%. Yet since that time federal retirees have received only one COLA of 3.5%. Thus the Civil Service Retirement COLA, often criticized as "overgenerous", has forced retirees to swallow 65% of the inflation occurring over the past three years.

And the adverse effect of the Gramm-Rudman-Hollings Amendment can cause further damage. If the automatic cutback procedure of the law is activated over the next five years, the purchasing power of annuities would be reduced by yet another 16 percent according to a Congressional study.

Federal retirees, like all older Americans, have a strong sense of fairness. That principle has been violated by the politically maneuvered COLA policy. Rather than equally "sharing the pain" of deficit reduction, federal retirees are "bearing the pain" of denied inflation protection while others are protected.

Last year, during the budget reconciliation process for fiscal year 1986, Congress went on record in favor of equal inflation protection for all the nation's elderly. In May 1985, the Senate voted overwhelmingly to treat Social Security and Civil Service COLAs alike. In July, the House passed a motion that also supported equal inflation protection. However, that policy was reversed in December by enactment of the Gramm-Rudman-Hollings Amendment.

Now, coupled with the very real threat of continued erosion of purchasing power, federal retirees, along with other senior citizens, are facing drastic cutbacks or total elimination of community programs which serve the elderly. Thus, as Congress considers the nation's budget for the upcoming fiscal year under the constraints of election year politics and the Gramm-Rudman-Hollings Amendment we urge this Committee to do all it can to see deficit reduction does not disproportionately impact the earned retirement income of any one segment of older Americans, nor the proven and necessary programs which serve them all.

We appreciate this opportunity to appear before you today.

Chairman HEINZ. Ms. O'Neil.

STATEMENT OF SHAUNA O'NEIL, PRESIDENT, NATIONAL ASSOCIATION OF AREA AGENCIES ON AGING, REPRESENTING THE LEADERSHIP COUNCIL OF AGING ORGANIZATIONS, SALT LAKE CITY, UT

Ms. O'NEIL. Thank you, Mr. Chairman. I am very honored to represent the Leadership Council of Aging Organizations, and particularly Mr. Jacob Clayman, our current president, who is unable to attend today.

Since the first time the debate or consideration of the proposal for the Gramm-Rudman-Hollings amendment was proposed, the Leadership Council has been severely concerned about how the deficit reduction plan would impact seriously programs which serve the elderly population.

Because our organizations exemplify a wide variety of interests, we have examined the impact of the proposal and of the amendment on programs as varied as Social Security, Medicare, Medicaid, and the Older Americans Act, among other programs.

While we were very pleased that Congress exempted certain programs, particularly those targeted toward income security and some of the major programs targeted toward the PRO, we are highly concerned that not protected, our community-based services to help older Americans remain in their homes and to support services to assist their families who are caring for their elderly relatives.

In Salt Lake County, which is the area agency I direct, we serve 18,000 persons each year. We have, in addition to the Older Americans Act, funds from several other Federal programs. We also have generous contributions from the State of Utah, Salt Lake County, and seven municipalities within the county.

We provide a wide variety of services to the elderly: transportation; in-home services such as chore and home repair; case management services; health screening clinics; both congregate and home-delivered meals, senior citizen centers.

As we consider the impact of the Gramm-Rudman-Hollings Act upon these programs, we must recognize that it is not only the meals programs that will be impacted, but also support services will be significantly impacted as well.

If Gramm-Rudman-Hollings goes completely into effect, my agency will lose $802,000. There is no way that my agency, which just exemplifies the agencies such as ours throughout the country, can continue to meet the needs of the existing aging population, let alone the growing needs with that type of budget cut.

We recognize and are very grateful for the fact that most care for the old-old, the frail, is provided by family members. But we also recognize and deal daily with the problem of caregivers who are themselves old; children who are 60 and 70 years old, caring for their parents.

We recognize that women are working and no longer are home to care for their families, and also that caring for elderly relatives often places extremely difficult burdens and choices between the

needs of the young, the children, the teenagers, and the needs of the grandparents.

We work daily with many people who are struggling valiantly to care for their elderly relatives, such as a 73-year-old woman who is so severely crippled with arthritis that she cannot walk without the assistance of a walker. She is caring for her husband, who is 75 years old and has suffered five strokes and has very severe physical as well as mental limitations.

As she says, "We have been married 53 years. All we want is to be together."

My agency provides that couple with daily nursing care for the wife—she provides all the care for the husband—and two home-delivered meals. With this small amount of support, we are keeping two people from nursing home care.

The Gramm-Rudman-Hollings impact will compound the very serious problems we are facing because of the rapid growth of the aging population. We expect that population of over 85 to double between the years 1980 and 1990. This, of course, is the most vulnerable, the most likely to need significant services.

States and local communities are trying and will try to do what they can to pick up this burden. But the reality is that it is foolish and very poor policy to assume that if the Federal Government drops its burden that it will be able to be picked up on the local level.

In addition, area agencies have experienced tremendous growth in programs and program utilization since the implementation of the diagnostic-related groups. The University of Texas last year documented substantial cost-shiftings from existing programs to other services to provide in-home services such as skilled nursing, homemaker, personal care and other similar services. These services are preventive. They are designed to keep people in their homes and to prevent or delay institutionalization.

An area agency in Minnesota reports it is able to keep people in the community for $400 a month. If they move into an institution, it will cost us as taxpayers between $1,700 and $1,800 per month.

My agency has experienced exactly similar patterns of cost-effectiveness in its program that it has operated since 1977.

There are no easy alternatives. Those who tell you that there are are fooling themselves and trying to fool you. We have already limited eligibility where it is appropriate. We use volunteers very widely and very creatively. We have implemented and provided support to support groups to extend the protection and the effectiveness of caregivers.

We have done marvelous things, as Mr. Suzuki said, with productivity improvement, but that can go just so far, and it cannot be continued forever. That particularly is true in the Meals Program if the recision in commodity reimbursement which the President has requested is implemented.

Also, project income cannot increase forever. Every time we have increased requests for donations, I have seen a drop in participation by low-income. Medicare increases, the reduction of other services such as we have talked about this morning, will have significant cost impacts on the elderly consumer which cannot be ignored.

Gramm-Rudman-Hollings will only compound the negative impact of some already troublesome trends. The rapidly increasing size of the frail older population; reduced services to meet the needs of this population, and the lack of public understanding about the major burden these shifts will make on our Federal, State and local governments.

Instead of talking about reductions in services for older people, we really must be talking and need to consider increases in these services, because we do have an ever-increasing vulnerable population. We cannot let Gramm-Rudman-Hollings continue to erode a very limited support system for those who need to remain in their communities.

If we cannot adequately care for older persons who have gone ahead of us, what kind of a message are we sending to those who are behind us?

Thank you.

[The prepared statement of Ms. O'Neil follows:]

Prepared Statement of Shauna O'Neil

EFFECTS OF GRAMM-RUDMAN-HOLLINGS ON AGING PROGRAMS

Mr. Chairman, I am Shauna O'Neil, President of the Board of Directors of the of the National Association of Area Agencies on Aging (NAAAA) and Director of the Salt Lake City Area Agency on Aging. Today I am representing the Leadership Council of Aging Organizations (LCAO). I am making a statement for Jacob Clayman, the current Chairman, who is unable to attend this hearing.

The Leadership Council of Aging Organizations, is a coalition of thirty national groups which represent or serve the aged. My written statement contains a list of member organizations. LCAO is concerned with the well-being of the nation's elderly, and the effect of Federal policy on individual elderly people and those who endeavor to meet their health, financial and social needs.

The Leadership Council members have long been concerned about the fiscal and budget priorities which have been driving up the Federal deficit. As individual organizations and a coalition, we have testified before Congress on the impact that budget cuts would have on programs for the aged. These concerns have not changed. Something new has been added: The Gramm-Rudman-Hollings Balanced Budget and Deficit Reduction Amendment of 1985. We are now concerned about the effect that this legislation will have on elderly recipients of aging programs, many of whom are needy.

Since the early debate on the proposal, the LCAO has been concerned about how the deficit reduction plan would reduce funding to these critical programs. Because the work of LCAO groups encompasses a very broad range of areas, we examined the potential impact the proposed legislation would have on programs

as varied as Social Security, Medicare, Medicaid, the Older Americans Act, Food Stamps, Social Services Block Grants, Rural Housing, Research, and many others. Some of these programs had already been subjected to budget reductions over several fiscal years. We believed the additional cuts could destroy their capacity to protect their beneficiaries.

We were pleased that Congress exempted certain programs, especially those targetted toward income security and some of the major programs that serve the poor. In the rush to adopt a deficit reduction remedy, there was a great deal of uncertainty in and out of Congress (and there still is) about how the plan would work. One thing was clear, however: the plan would drastically reduce the deficit, one way or another.

Gramm-Rudman-Hollings is now law, and we, as well as many others, are still examining the potential impact of this landmark plan. At this point, the evidence of the impact is becoming clearer. Whether or not a program is in category I, IA, or II, we are discovering, program budgets can be cut back either through the March 1 sequester order, automatic cuts, future sequestration, or budget reconciliation. In short, no program is truly protected.

A major segment of services assisting older persons has not been protected by this legislation; community services helping older persons remain independent in their own home and the support services to assist their family care givers. In Salt Lake City, our agency serves 18,300 older persons not only through

Older Americans Act funds, but also through such programs as Social Services Block Grant, Community Development Block Grant, Community Services Block Grant, Jobs Training Partnership Act, Foster Grandparent Program and many others including state, county and municipal support from nine communities.

The community services provided through these resources include such programs as employment services, transportation, in-home care such as chore services and minor home repair, alcohol and drug abuse prevention programs, family support groups for alzheimer disease victims, health screening clinics and many others. These dollars totaling $4.6 million (and of which only $1.3 million are Older American Act funds) are a very small investment for the numbers of persons benefiting within our communities. The projected cuts legislated by Gramm-Rudman-Hollings over the next four years would cut programs in my community alone by $802,000 thousand, reducing community services by one quarter and causing the possible elimination of some services altogether.

We know, and the press has been recently highlighting the fact, that the financial and social conditions of many older persons have improved as a result of national policies that have assisted them in planning for a more secure retirement. Social Security has worked and together with SSI has established an economic floor for the elderly. Medicare has accomplished what is was designed to do.

However, there are growing numbers of the older population who are not adequately protected by these programs, either because they have slipped

through eligibility criteria, were covered by spouses who have died, or have experienced multiple problems which have caused a variety of needs not addressed by these programs. Although only five percent of the older population is institutionalized at any one time, many more suffer from long term chronic illnesses in later life. Without minimal, strategically targeted assistance, these frail older persons may deteriorate to the point where expensive institutional care is required rather than community support services, which can be less expensive.

There is a growing segment of the older population that is termed as "frail" and the "old/old" who are more vulnerable and thus in need of community assistance. It is important to note that most care for persons who remain in their homes, is not provided by the government but rather provided by family members. However, many family care givers, some of whom themselves are elderly, may be in need of assistance such as respite care, or in-home care training to continue to provide their critical support. Additionally, as more women return to the work force, they are no longer able to assure full time care of older family members as was once the case.

An example of the family care giver "bind" can be shared from our caseload in Salt Lake City. A 73-year old woman with severe arthritis has been the primary care giver for her husband. Three years ago he suffered five strokes resulting in visual and intellectual impairment. He was eventually placed in a nursing home, as at that time she was unable to provide primary care due to her own physical limitations. They have been married for fifty-three years and desperately wanted to be together. She told her husband that if he was

able to walk across a room, and able to do his own toileting, she would take him home. He eventually made those improvements through rehabilitation. We now provide chore services in their home, for her, providing bathing assistance, thus allowing her to remain in her own home as primary care giver of her husband.

While certain benefit programs for the elderly are exempt from automatic cuts, we must dispell the notion that all older persons are protected or have escaped the cuts under Gramm-Rudman-Hollings. The frail and needy elderly are in need of assistance beyond what individuals have been able to protect themselves by, through contributions to Social Security. The protections for Social Security, Medicare, Medicaid, and SSI within Gramm-Rudman-Hollings do not assist this portion of older persons in need of financial assistance, in need of community health care, or simply in need of assistance finding appropriate information or help through the complicated maze of services available.

The impact of Gramm-Rudman-Hollings over the next five years, will imperil many older Americans at a time when the demand for supportive community based services is increasing significantly. According to the recent publication Aging in America Trends and Projections, by 1990 when the cumulative deficit cut will total nearly 44.5%, the number of persons 85 years of age and older will nearly double from 2,240,000 in 1980 to almost 4.5 million. It is this age group that needs more in-home services, and yet is less likely to be able to afford them. At a time when the most vulnerable of the old are increasing, it is absolute folly to consider cutbacks. The result will only be to cause

greater costs in other programs by creating more people with eligibility for subsidized welfare. To believe that the shortfalls will be picked up by the states and the private sector is a fantasy.

Area Agencies on Aging have experienced tremendous growth in the utilization of their services as well as the creation of new programs which are primarily targeted towards the frail homebound elderly. Agencies report that they are spending a disproportionately higher percentage of their funds on services for the frail homebound person. According to a national study conducted by the University of Texas Health Science Center in 1985 studying the effects of Diagnostic Related Groupings on the community-based long term care system, Area Agencies on Aging have shifted funds from other programs to in-home skilled nursing services, increasing them 196%. Expenditures for housekeeping and personal care services have increased by 69.2% and 63% respectively. These increases reflect new demands on the community-based system, and the demand for these services through Area Agencies on Aging will continue to increase as a result of deficit cuts in community health care programs. Please note that these shifted funds are not additional monies which respond to increased need occasioned by the DRG's, but rather funds taken from existing social services, shifted to cover expenses formerly covered by Medicare.

Services funded by many of the federal sources that are returned to local communities, such as the Older Americans Act, Social Service Block Grant (part of the Social Security Act), etc. are preventive in nature; they are designed to keep older persons independent and in their own homes for as long as possible and have become a cost-effective alternative to early or unnecessary

placement in an institution. By reducing the amount of funds available for preventive services, more and more older persons will be required to seek placement in nursing homes. Paying one dollar now is more fiscally responsible than paying four dollars later. This point has been made by an Area Agency on Aging in Minnesota who reports that providing alternative services for an older person costs approximately $400 per month, compared with the $1700 to $1800 per month for nursing home care. My agency has also validated this finding through a state funded program we have operated since 1978.

It is very distressing to see critical community services eliminated by Gramm-Rudman-Hollings, but remember too that even those programs as declared exempt will suffer cuts, negatively impacting older persons. To illustrate, here are a few examples:

> Social Security is described as a totally exempt program. The exemption however refers only to cash benefits, not to the administration of the program. While this exemption protects retirees' income, it does not protect them from loss of access to information or access to Social Security personnel, the secondary effects of which could result in benefit loss or delay of rightful benefit. The Gramm-Rudman-Hollings March 1 sequestration order is expected to force the closing or down-grading of Social Security offices and a reduction in personnel.

Medicaid is also reported to be an exempt program. However, the President's FY 1987 budget proposals, which the White House reports meet the Gramm-Rudman-Hollings deficit targets, would make deep cuts in domestic program funding. The Medicaid Federal contribution however is not exempted from cuts, and the President would cut the program by $1.3 billion in FY 86 and by $17 billion by FY 91.

Medicare is in the special category IA. The automatic cuts are to be made only in provider payments, not in benefits. Secondary impacts of such cuts are anticipated; providers, already stinging from reimbursement freezes, may be unwilling to accept Medicare patients. The President's FY 86 budget, in addition, requests an unprecedented cut in Medicare spending over five years, totalling $55 billion. $20 billion of this reduction would be derived from new revenues through higher Part B premiums and deductibles as well as a new home health care co-payment requirement.

Medicare contractor funding (the insurors who pay the bills for Medicare) is being reduced by the March 1 order; the result, and the alleged order from Health Care Financing Administration, is that contractors are being advised to "pay claims at a slower rate". This applies not just to doctors, hospitals, etc. but to elderly who file their own claims for bills from doctors and medical suppliers who do not accept assignment. Thirty percent of claims are filed directly by beneficiaries.

Our agency has taken seriously the need to conserve limited federal funds. We have already taken the obvious steps to stretch our resources. We have tightened service eligibility where possible; we utilize over 1,800 volunteers and continue to use their energies in creative ways; additionally, we have implemented support groups to expand the use of family and neighbor care givers. We are now operating with minimal resources compared to demand, and are running out of ideas to expand our services to meet these ever increasing demands.

Gramm-Rudman-Hollings will only compound the negative impact of some already troublesome trends-the rapidly increasing size of the frail older population, reduced services to meet the needs of this population, and the lack of public concern about the major burden these shifts will make on our federal, state and local governments. Instead of talking about reductions in services for older persons, we should be planning for responsible ways to supply even more needed services to this ever growing and needy population. We cannot let Gramm-Rudman-Hollings continue to erode a very limited support system for needy older persons. If we cannot adequately care for older persons who have gone ahead of us, what kind of a message are we sending to those who are coming behind?

LEADERSHIP COUNCIL OF AGING ORGANIZATIONS

American Association for International Aging

American Association of Homes for the Aging

American Association of Retired Persons

American Society on Aging

Asociacion Nacional Pro Personas Mayores

Association for Gerontology in Higher Education

Catholic Golden Age

Concerned Seniors for Better Government

The Gerontological Society of America

Gray Panthers

National Association of Area Agencies on Aging

National Association of Foster Grandparents Program Directors

National Association of Mature People

National Association of Meal Programs

National Association of Nutrition and Aging Services Programs

National Association of Older American Volunteer Program Directors

National Association of RSVP Directors, Inc.

National Association of Retired Federal Employees

National Association of Senior Companion Project Directors

National Association of State Units on Aging

National Caucus and Center on Black Aged, Inc.

National Council of Senior Citizens

National Council on the Aging, Inc.

National Indian Council on Aging, Inc.

National Interfaith Coalition on Aging

National Pacific/Asian Resource Center on Aging

Older Women's League

Retired Members Department/United Auto Workers

AFL-CIO Department of Occupational Safety, Health & Social Security

Villers Advocacy Associates

Chairman HEINZ. Ms. O'Neil, thank you very much.

You come from an area of Salt Lake County in Utah which, because of the very strong family relationships that Mormons in general have and have maintained, has many advantages over many other communities where family ties are not nearly so strong. Yet, even in the area in which you work, you cite the increase in need. You also make mention of the impact of other Government policies such as the Prospective Payment System on hospitals which is, in most States where we have information, increasing the burden for nursing home care and home health care on the population and the caregivers generally.

The Older Americans Act, which is a very modest-sized program, and the area agencies on aging which you as a specific provider represent one of in Salt Lake, are a multipurpose tool. One purpose, of course, is to serve those elderly who are either indigent or who are most at risk because they do not have family caregivers to help them. A second element is preventive, to prevent unnecessary and very costly to some—often the taxpayer—institutionalization, to prevent descent down the economic ladder into poverty and subsequent dependence on costly Government programs such as Medicaid, SSI, food stamps, subsidized Government housing, all of which we maintain and we like to think as a safety net for people, both old and less-than-old, who have run out of luck for one reason or another.

So you have a massive mandate that has been put upon you. And you indicate that your loss of roughly $102,000 a year will substantially hurt your mandate.

I would like to ask you more specifically how you will go about implementing, what choices you will make in having to apply that $102,000 reduction.

For instance, are you going to have to reduce the number of homes or individuals that you serve, or will you try to lower the amount of service you provide—will the visiting nurse come, instead of daily, every other day? How will you move funds from one program to another? Can you move funds from one program to another? How will you face this challenge?

Ms. O'NEIL. Inevitably, Senator, it will require some very difficult and very painful decisions. It will be impossible to implement those kinds of cuts without a reduction in the number of people we are currently serving.

We work very hard, and we pride ourselves on the fact that when we order services for a person, we are doing it at a minimal level. We work very, very hard to keep the family involved and provide only those services that are necessary to supplement the family's involvement.

So we are not providing an excess level in which it would be unreasonable to cut it back. Obviously, in a Home-Delivered Meal Program, for example, you cannot deliver a meal every other day; a person must eat every day.

There will be programs cut out entirely, I am sure, because programs can only be cut to a certain point, and they become terribly cost-ineffective.

The process we will go to—I am very pleased to have a very effective Advisory Council that has a good sense of the community—

we will work with the Advisory Council, we will work with senior citizens and further hone our priority listings and we will have to make cuts based on that.

But there is no way to cut these programs without very great harm to people we are now serving, without additional waiting lists being established, without great harm to individuals.

Chairman HEINZ. Now, Mr. Suzuki in his testimony indicated that there would simply be nothing to worry about; just four meals less per day at each site. You were here, I suspect, when he testified. Is he right, and what does that mean, four meals per day less at each site? Does that mean we will close some sites? Does it mean we will turn four people per day away? What is going to happen?

Ms. O'NEIL. I was disturbed by Mr. Suzuki's comments in that he only highlighted the impacts on the Meals Program, because there will be impacts on support services which are necessary also for individuals to remain in the community.

Four meals per day per site in my county would be 64 meals a day. The impact is—the reality is that the Meals Programs, both for Home-Delivered Meals and Congregate Meals are growing, they are not diminishing. They are not even remaining static.

We are at most a medium-sized county. We estimate, however, that the number of elderly people in my community grows at a rate of seven persons per day, and that is not in migration; that is purely the number of people who turn 60.

So that what that means is we will be closing sites, we will be limiting participation, putting caps on the number of meals which can be served. It also means, as I said, other services will be reduced.

Chairman HEINZ. Now, these cuts are supposed to go into effect on a day-certain. They are not in effect on February 28. They are in effect on March 1. What will you have to do differently on March 1 than 7 days from now?

Ms. O'NEIL. The reality of the 4.3-percent cut on March 1, since the program year begins on October 1, is that we are really facing more of an 8-percent cut than a 4.3-percent cut, since half of the money has been spent.

As I stated, we will be reducing services. In my own community, I cannot define exactly what services those are. My Advisory Council is meeting today to start making some of those decisions.

Throughout the country, the changes are going to be different from one community to another, because one of the strong points of the Older Americans Act, as you know, is the degree of local control.

The National Association has received indications, however, that particularly in rural communities, there will be congregate meal sites closed, and there will be other services closed as well.

Chairman HEINZ. Your statistics are indeed fascinating. You indicate that the service demand just in your area—and you are by your own admission a moderate-sized area—is growing at the rate of seven persons per day.

Ms. O'NEIL. That is the number of eligible people.

Chairman HEINZ. Of eligible people. What proportion of these eligible people probably need your services?

Ms. O'NEIL. Probably 10 to 15 percent.

Chairman HEINZ. 10 to 15 percent. What you are saying is that you will have an increase in need of maybe 12 or so people between now and March 1, at which point you will have to stop serving—you will not be able to serve them, and you will have to stop serving an additional 64 people.

Ms. O'NEIL. That is true.

Chairman HEINZ. Which means if you multiply that by the sum of 600 or 700 Area Agencies on Aging, you begin to get a pretty large figure of people who are vulnerable, at risk, poor, faced with inappropriate and costly institutionalization, or any of the other kinds of problems.

I think the message of Gramm-Rudman-Hollings and the message of the 4.3 percent cut is that if Congress does not do its job, and if the President does not do his job, if we do not find a way to reduce the budget deficits to acceptable levels—and I do not know of anybody who thinks that $144 billion is anything to be proud of; it is lower than what we have got, but it is a lot higher than most people would like to see—we will see more of the irrational results of the Gramm-Rudman triggers. Of course, the point is that the Congress and Government generally has just failed to own up to deciding what it is it wants to pay for and what it is it does not want to pay for.

We have had 3 or 4 years of fairly decent economic growth—at least, we expect this year to be a very good year. There is not a very good reason to be running deficits of the rate we are running them, in relatively good economic times.

Yet, Congress has chosen to spend and pass on to other generations the cost of its profligacy, which is considerable when you realize that this year, interest on the national debt will total $200 billion—almost overtaking the entire costs of and outlays of the Social Security System. If we continue for another 1 or 2 years at the rate we are going, the debt service will be larger than the Social Security System, which is the second largest program that we have—the largest overall is the defense budget. That represents a permanent burden on the Federal budget, a permanent invasion of our ability to provide for the needy, for the inner cities, for health research, for things that we know are investments in the future, such as education.

One thing we know, the larger that debt service gets, the less we will be able to make long-term investments for the future of this country. That is precisely how your kids, my kids, and their grandchildren will pay a price. They will be less well-educated, they will be less well-housed, they will have less access to transportation, they will have less of everything that we would like to provide.

Therefore, we all realize that it is time to get serious, but for the last 2 or 3 years, Congress has been ducking getting serious. Of course, the purpose of Gramm-Rudman-Hollings is to force Congress to make decisions and make some modest changes in deficit levels which will, over a 5- or 6-year period of time, mount up to making major contributions to get us off this path that leads to a good deal of very serious undermining of the human resources of this country down the road.

What we have tried to do in this hearing today, and I hope we have been successful, is to illustrate that if the second barrel of

Gramm-Rudman-Hollings is allowed to fire in the fall of this year, there will be some very irrational, serious casualties. You, the Federal retirees, the other programs that are within the overview and jursidiction of this committee as we have evidenced today, do provide some very necessary services. There are clearly disparate effects, whether it affects the Federal employees and not the Social Security recipients and not the private pension beneficiaries and so forth, there is a tremendous amount of arbitrariness built into the process, which of course is the whole point. The solution is not to be arbitrary. It is my hope that we will see a budget solution that will avoid the kinds of insipient, arbitrary, irrational results that you all have testified to here today.

So I am deeply grateful to all of you. If there is anything either of you wish to add, I would be pleased to receive it.

Ms. Park.

Ms. PARK. Senator, I would just like to comment that aside from the COLA cut that was addressed by President Andolsek in his testimony, contrary to a lot of public opinion, the Federal retirees are not just the healthy and wealthy—they are indeed a cross-section of the rest of the aged society, and as such, depend every bit as much on many of the services in equal numbers as Ms. O'Neil pointed out earlier. We are every bit as concerned with the reductions in those services, that is indeed just another layer of cuts, that this group of people along with all of the other senior citizens in this Nation will have to bear.

Chairman HEINZ. That is a well-taken point. I think you can find studies to show that Federal employees are certainly no better off than any other class of retired employees. I am glad you put that on the record, because it is true.

Thank you both very much. The hearing is adjourned.

[Whereupon, at 1:10 p.m., the committee was adjourned.]

APPENDIX

MATERIAL RELATED TO HEARING

Item 1

NATIONAL INSTITUTE ON AGING

QUESTIONS SUBMITTED TO BE ANSWERED FOR THE RECORD

for the Senate Special Committee on Aging

hearing of February 21, 1986

1. You stated in your testimony that you did not have a great deal of discretion in implementing required Gramm-Rudman cuts. To the limited extent that you (or the Department of Health and Human Services) may have had discretion to administer the required cut, did certain elements of your budget take disproportionate percentages of the 4.3% cut? If so, where did these cuts come from and could you offer an explanation of the rationale behind these decisions.

Policy guidelines required that the 4.3% cut be applied equally across all mechanisms, therefore no specific mechanism (research grants, training, contracts, etc.) was cut more than any other. Research programs (as opposed to research mechanisms) will be affected differentially. For example, Alzheimer disease research supported through research project grants will be maintained at the highest possible level. This will be accomplished by reductions in other program areas which, though of importance to the wellbeing of older people, are of lower priority than Alzheimer disease research. Examples of these include research on aging aspects of pharmacology and gastrointestinal diseases. By contrast, Alzheimer disease research supported through center grants, specifically the Alzheimer Disease Research Centers (ADRCs), cannot be protected in the same way as almost the entire dollar amount in the centers line is devoted to ADRC funding.

2. Last May, we joined 9 other members on the Aging Committee in writing to the Chairman of the Appropriations Committee, Senator Hatfield, and urged his support of a supplemental appropriation of $1.6 million for the five original Alzheimer's Disease Research Centers. We asked for this funding because these Centers were underfunded. There appears to be a dispute about whether or not the 1986 and 1987 Gramm-Rudman cuts will affect important research now underway at the Centers. We would like you to clarify this matter. What impact do you expect?

The 10 NIA ADRCs have never been funded at the full recommended level. The ADRC directors have used a variety of methods to minimize the effects of these short-falls, including delaying the hiring of personnel essential to some projects, delaying the purchase of some equipment, postponing the start of some projects, and/or reducing the number of patients being studied or recruited for the clinical studies. The cuts required by the budget

reduction legislation further reduce the available funds.

Will centers be forced to curtail specific research projects? If so, can you give some examples?

Typically, the 10 ADRCs have delayed the start of pilot projects. These are projects which require small investments of time (one to two years) and money ($10,000 to $30,000). Pilot projects are designed to provide start-up funds for a new idea or to serve as a quick way of checking the validity of a hypothesis.

Another strategy used by the ADRCs has been to reduce the number of patients being studied. At the Harvard University ADRC several projects scheduled to start in FY 1986 are being delayed. The include a project to determine whether there are subgroups of patients within the classification of Alzheimer disease, and to follow Alzheimer disease patients across time to identify possible behavioral and biological correlates of specific subgroups; a project to study the chemistry of neurofibriilary tangles, the primary brain pathology in Alzheimer disease; and a project to attempt the isolation of a specific and unique DNA fragment from the genome of patients identified as manifesting familial AD.

At the University of Southern California ADRC, not only will the start of projects related to the molecular biology of Alzheimer disease be delayed, but clinical studies being done with patients will be effected. This center had expected to study 13 patients per year, including clinical assessment with a final autopsy. Because of the tremendous desire of the family members to enroll in these studies, there have been over 40 patients during the first year of study and a large number of brains have been obtained for neuropathological studies. At current funding levels, these brains will not be studied, thus losing the opportunity to compare the pathological findings with a wealth of clinical data on these patients.

3. One of the valuable and unique qualities of the Alzheimer's Disease Research Centers is the discretion each institute has with some of their funds to conduct "seed projects" that target investigations on the latest and most promising theories in research and diagnosis. Yet, it appears that these funds will probably be cut first when budgets are reduced. How will the budget cuts affect these centers' discretionary funds?

Currently unfunded projects are likely to remain unfunded, and special opportunities arising from on-going research may not be pursued in the most timely manner. Pilot projects are the most vulnerable elements of the centers because they require small investment of funds and usually involve "high risk" ideas. They are therefore the least likely of all projects to be funded when resources are limited even though these types of ventures in science usually have the highest potential for a major breakthrough.

4. At a time when we are spending in excess of $25 billion in health care for the over 2.5 million victims of Alzheimer's disease, in your professional opinion, is our current commitment to research in this field adequate?

A number of bright, well-trained scientists in other areas of research are becoming interested in the challenges and prospect of a major breakthrough in Alzheimer disease research. During the last few years, the number of investigators wanting to do research on Alzheimer disease has increased at an exponential rate. At present, we do not have the resources to fund the many excellent proposals that have been found meritorious.

5. Isolated systolic hypertension (ISH) threatens the lives of over 20% of this nation's older citizens. Individuals with ISH have three times the risk of cardiovascular disease and stroke. NIA, together with the National Heart, Lung and Blood Institute, is conducting clinical trials on drug treatments for ISH. We are concerned that joint venture research, such as this, will be cut multiple times each year Gramm-Rudman cuts are triggered. Are joint venture (multi-institute funded) research studies disproportionately affected by Gramm-Rudman across-the-board cuts?

The clinical trial on isolated systolic hypertension in the elderly is an important initiative for both the NHLBI and the NIA. Considerable time and expense have been devoted to this study, and it will be protected to the utmost. This will be accomplished by scaling back or delaying implementation of other, lower priority contracts.

More specifically, will the Gramm-Rudman sequestration affect the number of participants in the ISH clinical trials?

Neither NIA nor the NHLBI expect the sequestration to affect the number of participants in these trials.

6. As our aging population increases, we will have an even greater need for clinicians, investigators, and teachers with geriatric training. Individuals familiar with this issue agree that we are not even meeting our current need for such professionals. However, the Gramm-Rudman law is actually undercutting the small number of initiatives that we now have underway. In your professional opinion, do you believe that we can sustain these types of cuts and meet the currently unmet needs in these fields? If no, please specify which areas will be most deficient.

A high priority of the NIA is the training of academic leaders in aging and geriatrics to provide the researchers and teachers needed to advance knowledge and to provide for education of future professionals in these fields. As stated in the DHHS Report on Education and Training in Geriatrics and Gerontology (prepared at the request of Congress and submitted in February 1984): "All students preparing for careers in the health and other human services should receive education about the aging process and the strengths and problems of the aged."

The DHHS Report also documented that as a nation we have only about 10% of the teachers and researchers needed to provide this leadership; and provided goals for reaching the minimum necessary number by the year 2000. The NIA supports and provides approximately 50% of all the training for such leadership. Current support for training will not achieve these goals; the sequestration has further reduced available funds for such training and career development. The result is approximately a 22% reduction in the number of new and competing trainees for FY 1986, from 45 under the Appropriation to 35 under the sequestration.

7. Does inconsistent and decreasing Federal support of biomedical research and researchers affect our ability to attract people into the field of geriatrics and gerontology?

Federal funding for biomedical research in the field of aging has grown annually from a level of $37.3 million in 1978 to $145.8 million in 1987. Researchers have been given a clear and consistent signal each year that geriatrics and gerontology are important research topics. As we proceed through an era of mandated Federal deficit reductions, researchers -- as all other beneficiaries of Federal spending -- become concerned about the future advantages of pursuing a research career in a particular field. We believe, however, that aging research will continue to be a promising field.

As reported in a recent Science editorial, the development of ADRCs, for example, is leading to very promising growth in the number of investigators whose research will have an impact throughout the neurosciences. However, a number of ADRC directors do tell us that promising junior investigators are discouraged by perceptions of future fund availability and may make alternative career choices.

8. With regard to the Baltimore Longitudinal Study of Aging (BLS) which is taking place under the auspices of NIA, it is our understanding that in the early stages of the study no or very few women were included. We are aware that NIA has been trying to rectify this situation by adding more women to this study, but it is also our understanding that you will need to add additional women for the results to be more generalizable to the entire population. Due to the fact that there are so many more older women than older men, it is obvious that the problems associated with aging are disproportionately weighted to our female population. Will you be able to continue to add more women to this very important study?

A longstanding BLSA recruitment goal has been to increase the number of women to equal the size of the male sample. Recruitment of women began in 1978, but, dictated in large part by staff limitations, the growth in the size of the female cohort has been slow. At the present recruitment rate, another seven years will be needed to reach this goal. Cuts resulting from the budget reduction legislation will delay recruitment still further. The cost of this prolonged approach encompasses both slowing the pace of discovery and foregoing opportunities. For example, longitudinal analyses which could provide insights into gender differences in disease development and longevity will be deferred.

9. You have stated before that osteoporosis is a "silent epidemic". As many as 20 million older Americans suffer from osteoporosis and an estimated 50,000 elderly women die as a result of complications from hip fractures. What will Gramm-Rudman do to the growing interest within the National Institute on Aging for major research initiatives into the causes and treatment of osteoporosis?

Osteoporosis research will be affected in 1986 as all other research initiatives in the Institute -- by a 4.3 percent funding reduction from the appropriated amount.

Item 2

National Low Income Housing Coalition

1012 Fourteenth Street, N.W., Suite 1006, Washington, D.C. 20005 • (202) 662-1530

Hon. Edward W. Brooke, *Honorary Chairperson* Barry Zigas, *President*

February 21, 1986

THE THREAT TO ELDERLY HOUSING

STATEMENT OF CUSHING N. DOLBEARE, CHAIRPERSON, NATIONAL LOW INCOME HOUSING COALITION, BEFORE SPECIAL COMMITTEE ON AGING, UNITED STATES SENATE.

The National Low Income Housing Coalition appreciates this opportunity to present testimony on a key facet of low income housing needs: those of low income elderly people. Like the housing needs of all low income people, they are critical and growing. The fact that elderly housing programs, until this year, escaped the extinction which the Administration has proposed for other low income housing has enabled a small trickle of additional units to come into the housing stock, but the supply is still far short of need.

This statement will cover four major areas: (1) Elderly Housing Subsidies and Elderly Housing Needs; (2) Program Changes Over the Past Decade; (3) The Proposed 1987 Budget; and (4) Causes of the Deficit and the Impact of Gramm-Rudman-Hollings.

I. Elderly Housing Subsidies and Elderly Housing Needs.

Over the past half century the Federal government has provided housing assistance for elderly people in a variety of ways. While the "Section 202" program for elderly and handicapped people is often thought of as the "elderly" housing program, it is, in terms of the number of people served, one of the smallest. Elderly people in "202" housing are outnumbered by those in public housing and in Section 8 housing not tied to the 202 program, as well as, almost certainly, in Farmer's Home Administration rental housing and in housing built under the old Section 236 below market interest rate program. In short, almost all federal low and moderate income housing programs are, to some extent, elderly housing programs. In 1984, there were a total of 1,157,000 elderly households living in federally subsidized rental housing -- roughly one-third of all renters in subsidized housing.

Nonetheless, federal housing efforts have fallen far short of meeting elderly housing needs.

- In 1984, there were 1.1 million elderly renter households with incomes below the poverty level. Only 444,000, or not quite 40%, of these households lived in subsidized housing (See Chart 1).[1] One can be sure, as President Reagan's Commission on Housing found in 1982, that almost all the others either lived in substandard housing, or paid more than they could afford for their housing, or both.[2] This gives us, an minimum, a need for housing assistance for almost 700,000 poor elderly renters. Many -- those who live in standard units but who are paying more than one third of their incomes for that shelter -- could be helped by vouchers (if we had a program which provided vouchers to all eligible households needing assistance). Others need rental housing units designed, built, and managed to meet the special housing needs of elderly people.

  It should be noted that this measure of need is far more stringent than the "50% of median income" which is the threshold for housing assistance.

- There are an additional 1.55 million elderly homeowners with incomes below the poverty level. Only one small federal program -- the Farmer's Home Section 504 very low income home repair loan and grant program -- is currently focussed on meeting their needs, and this operates only in rural areas. Many communities, of course, allocate portions of their Community Development Block Grant funds to assist elderly owners with rehabilitation.

Thus, it should be apparent that federal housing assistance meets only a small fraction of the housing needs of low income elderly people. Indeed, as Chart 2 (Poor Households Receiving Federal Aid) shows, a far lower proportion of households with incomes below the poverty level receive housing assistance (25.8% of poor renters) than receive food stamps (43.0% of all poor households) or Medicaid (42.3% of all poor households).

CHART 1

ELDERLY RENTERS BY INCOME

AND NUMBER IN SUBSIDIZED HOUSING, 1984

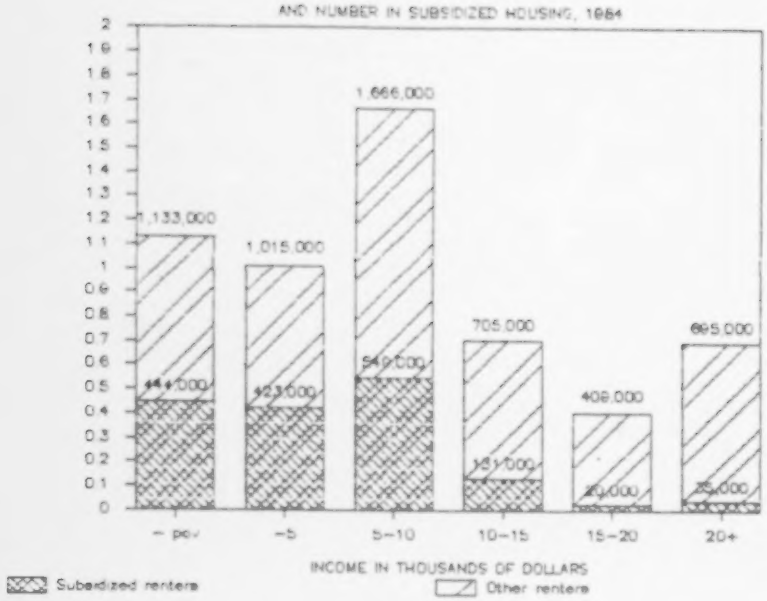
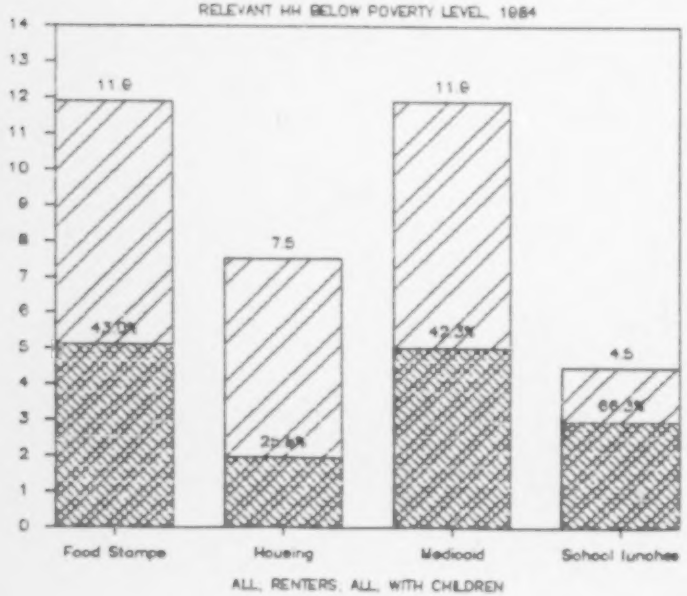


CHART 2

POOR HOUSEHOLDS RECEIVING FEDERAL AID

RELEVANT HH BELOW POVERTY LEVEL, 1984



KEY FACTS ABOUT ELDERLY AND OTHER HOUSEHOLDS NEEDING AND RECEIVING HOUSING ASSISTANCE
(Numbers in thousands)

CHARACTERISTIC	Total	Income Under $2,500	$2,500 to $4,999	$5,000 to $7,499	$7,500 to $9,999	$10,000 to $12,499	$12,500 to $14,999	$15,000 to $19,999	$20,000 and over	Median Income	Below Poverty Number
All Households	86,789	2,168	4,716	6,185	5,287	5,578	4,979	9,871	48,004	$22,415	11,887
Householder 65 or over	18,155	250	1,980	2,881	2,029	1,755	1,532	2,352	5,376	$12,799	2,683
Percent 65 or over	20.9%	11.5%	42.0%	46.6%	38.4%	31.5%	30.8%	23.8%	11.2%	57.1%	22.6%
Renters	30,943	1,327	2,952	3,360	2,585	2,605	2,178	4,199	11,735	$15,493	7,499
Percent renters	35.7%	61.2%	62.6%	54.3%	48.9%	46.7%	43.7%	42.5%	24.4%	69.1%	63.1%
Elderly renters	4,490	93	922	1,109	557	417	288	409	695	$8,044	1,133
Percent of all renters	14.5%	7.0%	31.2%	33.0%	21.5%	16.0%	13.2%	9.7%	5.9%	51.9%	15.1%
IN SUBSIDIZED RENTAL HOUSING											
Total households	3,588	297	995	853	450	339	171	233	251	$6,471	1,931
Percent of all household	4.1%	13.7%	21.1%	13.8%	8.5%	6.1%	3.4%	2.4%	0.5%	28.9%	16.2%
Percent of all renters	11.6%	22.4%	33.7%	25.4%	17.4%	13.0%	7.9%	5.5%	2.1%	41.8%	25.8%
Householder over 65	1,157	25	398	400	149	94	37	20	35	$5,977	444
Percent of all elderly	6.4%	10.0%	20.1%	13.9%	7.3%	5.4%	2.4%	0.9%	0.7%	46.7%	16.5%
Percent of elderly rent	25.8%	26.9%	43.2%	36.1%	26.8%	22.5%	12.8%	4.9%	5.0%	74.3%	39.2%

II. Program Changes Since 1980

Despite a series of cutbacks under the Carter Administration from the level of additional assisted housing units provided under the Ford Administration, over $30 billion in budget authority for HUD-subsidized low income housing was appropriated by Congress for fiscal 1981, when President Reagan took office. That was estimated to support an additional 250,000 low-rent units. Moreover, over half (55%) were new or substantially rehabilitated units, thus adding to the nation's stock of needed rental housing.

Federal housing programs have been under siege for most of this decade. Indeed, the cumulative requests of the Reagan Administration for budget authority for additional housing assistance through HUD's programs add up to **minus $838 million.** That is, the rescissions proposed in the FY 1983 and 1987 budget requests (for FY 1982 and FY 1986, respectively) add up to $838 million more than the total new budget authority requested in 1984, 1985, and 1986. (Indeed, if one adds in the rental rehabilitation and housing development grant rescissions proposed in the 1987 budget, the total reaches $984 million.)3

	HUD REQUEST	APPROPRIATION
1983	-$2,416 million	$8,651 million
1984	515 million	9,913 million
1985	5,336 million	10,759 million
1986	499 million	9,816 million
1987	-4,772 million	?
Total	-$838 million	$39,139,000,000

In addition to slashing funds for additional housing units, HUD, with the exception of the tiny (in comparison to need) Section 202 program, proposed shifting all low income housing assistance to housing subsidies using the existing stock of rental housing.

Clearly, and fortunately for low income people, Congress has not acquiesced in these HUD requests. Not only has close to $40 billion been appropriated for additional housing assistance, but Congress has kept several programs alive: public housing, Section 8 moderate rehabilitation, and the rural housing programs of the Farmers Home Administration.

Not only that, but the Administration has in many respects had the best of two worlds in dealing with housing during the past several years. Because of the length of the pipeline, while devastating cuts were made programs which provide additional units, the number of subsidized housing completions and occupancies -- primarily of units for which funds were requested and appropriated under prior administrations -- was close to record levels.

CHART 3

ADDT'L ASSISTED HOUSING FUNDS, 1981–87

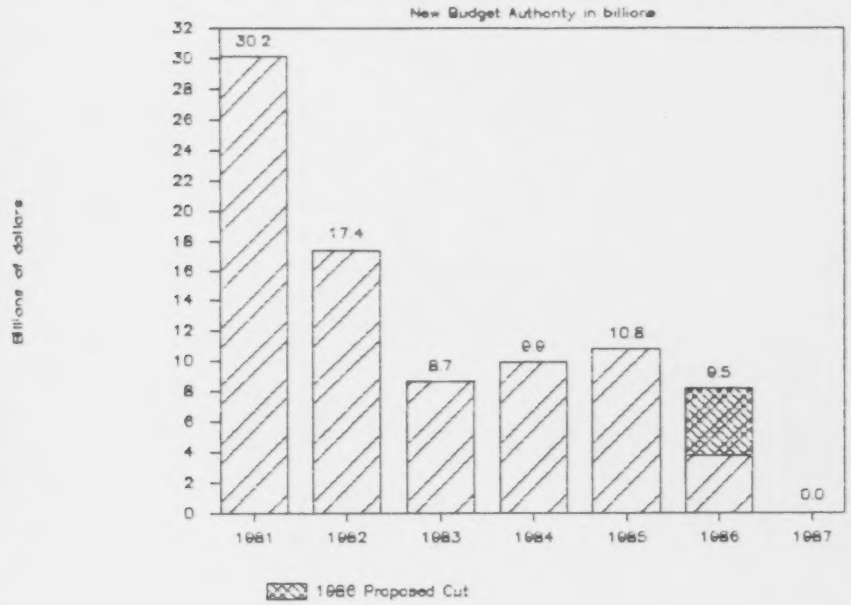
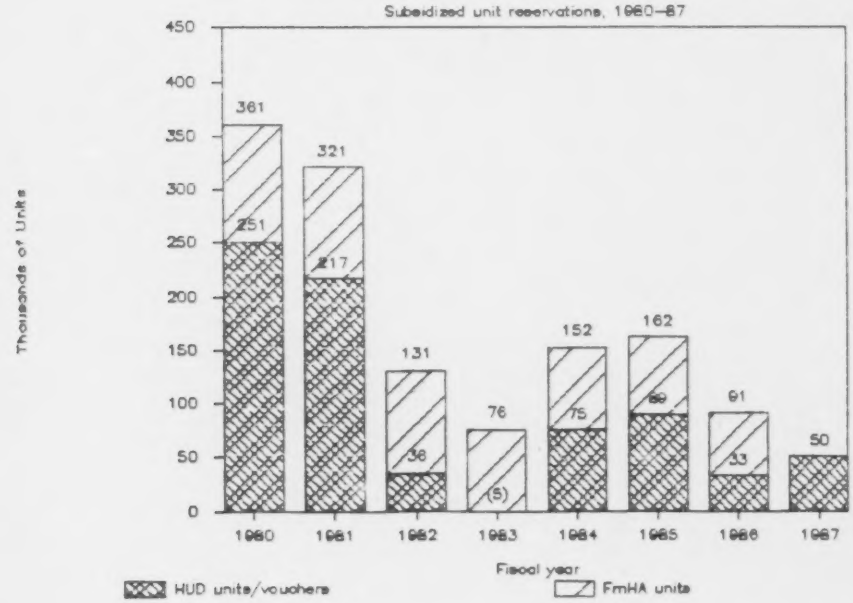


CHART 4

HUD AND FMHA LOW INCOME HOUSING



Tables 1-7 show these HUD budget trends in detail. Chart 3 (Additional Assisted Housing Funds, 1981-87) and Chart 4 (HUD and FmHA Low Income Housing: Subsidized unit reservations, 1980-87) illustrate the funds and resulting units which have been provided.

While low income housing has taken deep cuts -- deeper than any other program providing aid to low income people -- costly federal housing subsidies, through the tax system, have continued to be provided to middle and upper income households. Chart 5 (Housing Spending, Constant 1986 dollars) shows the contrast between the drop in budget authority for the subsidized housing function (net of public housing loan refinancing), compared with the continued rise in housing-related tax expenditures. Tax expenditures will have risen from $41.0 billion in 1981 to $46.2 billion in 1987, while direct expenditures will have fallen from $32.1 billion in 1981 to only $1.2 billion in 1987. Most of these tax expenditures are in the form of homeowner deductions and benefit primarily middle and upper income homeowners. About three-fourths of them go to households in the top quartile of the income distribution. Moreover, though accurate figures are not available, since fewer than half of all homeowners claim any of the deductions and since most elderly people have paid off their mortgages and many are also offered property tax relief, the proportion of housing-related tax expenditures which are received by elderly people is almost certainly very low.

Roughly ten percent of housing-related tax expenditures are investor deductions, which, although they are taken primarily by those in the top tax brackets, do result in the construction, rehabilitation or maintenance of lower income housing. Chart 6 (Federal Housing Expenditures: Budget Authority and Tax Expenditures) allocates all of the investor deductions to low income housing. Even so, the growing disparity between federal expenditures for middle and upper income households and those for low income people is nothing short of scandalous. In 1981, tax expenditures for middle and upper income housing totalled $38.7 billion, while budget authority and tax expenditures for low income housing totalled $34.0 billion. By 1987, middle and upper income tax expenditures are estimated at $41.8 billion, while lower income tax expenditures and budget authority combined will total only $5.6 billion.

III. The Proposed 1987 Budget

The 1987 budget continues the Administration's persistent efforts to reduce the level of federal support for low income housing programs and to eliminate the building or rehabilitation of housing for low income people.

CHART 5

HOUSING SPENDING, CONSTANT 1986 DOLLARS

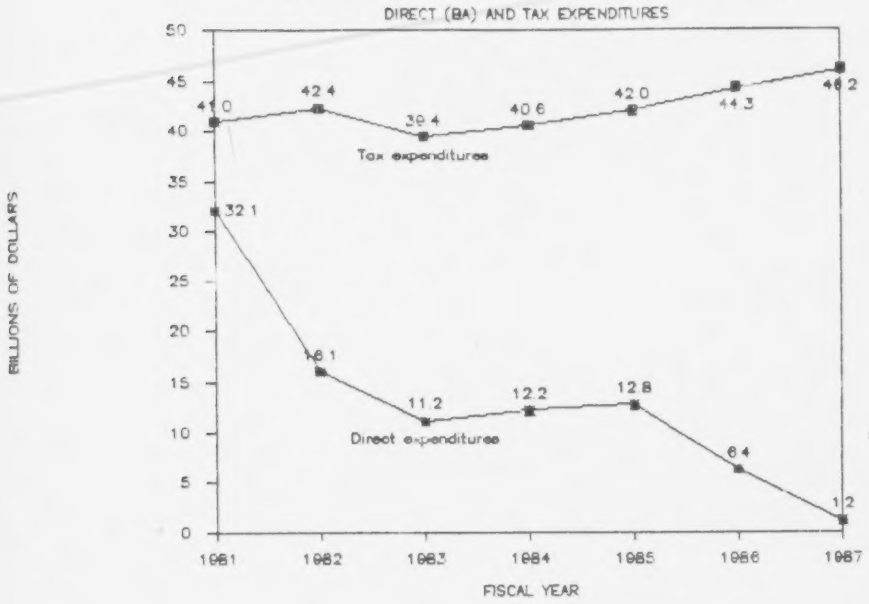


CHART 6

FEDERAL HOUSING EXPENDITURES

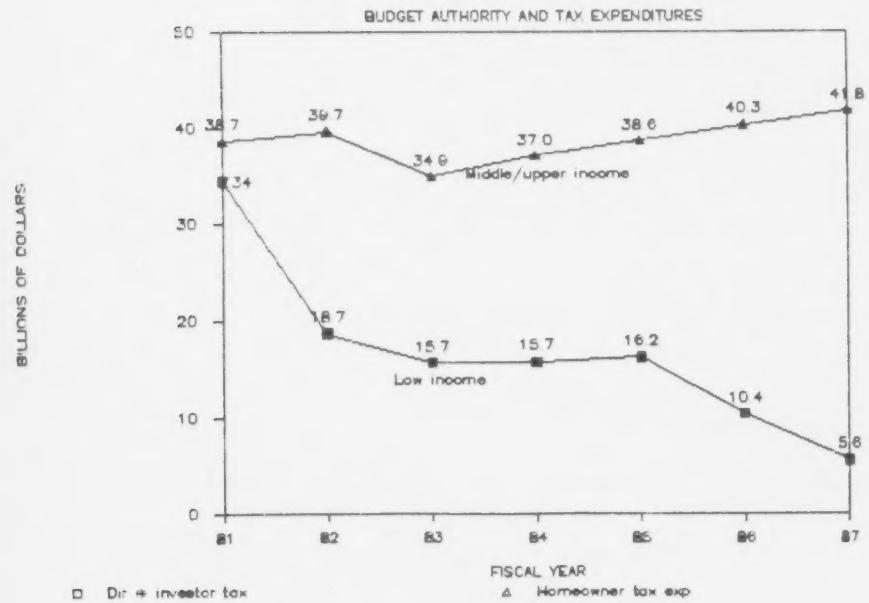


TABLE 1. HIGHLIGHTS OF HUD LOW INCOME HOUSING PROGRAMS, 1986 COMPARED TO EARLIER YEARS
(Numbers in millions)

Program/Activity	1981 Actual	1982 Actual	1983 Actual	1984 Actual	1985 Actual	1986 Estimate	1987 Proposed	Change 1986-87 Amount	Change 1986-87 Percent	Change 1981-87 Number	Change 1981-87 Percent
Budget Authority											
Net new budget authority	$30,170	$17,774	$8,651	$9,913	$10,759	$9,537	0	($9,537)	-100.0%	($30,170)	-100.0%
rmanent authority	32	30	25	19	0	0	0	$0	--	($32)	-100.0%
Carryover balances	2,291	2,772	1,590	1,465	765	918	0	($918)	-100.0%	($2,291)	-100.0%
Recaptures	5,227	2,831	3,273	2,458	827	538	264	($273)	-50.8%	($4,963)	-94.9%
Rescission of recaptures	0	0	0	0	(827)	(538)	(264)	$273	-50.8%	($264)	--
Prior year deferrals/resto	0	0	750	233	222	0	2,301	$2,301	--	$2,301	--
Subtotal, available BA	$37,720	$23,007	$14,290	$14,088	$11,747	$10,456	$2,301	($8,155)	-78.0%	($35,419)	-93.9%
Less: Rescissions/deferral	(5,519)	(4,099)	0	0	0	6,714	0	($6,714)	-100.0%	$5,519	-100.0%
Total budget authority	$32,201	$18,909	$14,290	$14,088	$11,747	$3,741	$2,301	($1,441)	-38.5%	($29,900)	-92.9%
Use of Budget Authority											
Section 8											
New const/sub rehab (202	$10,245	$3,704	$1,955	$1,901	$1,703	$243	90	($153)	-62.9%	($10,155)	-99.1%
Moderate rehab	551	1,024	540	528	415	103	0	($103)	-100.0%	($551)	-100.0%
Existing	5,791	1,280	2,013	3,806	2,654	184	0	($184)	-100.0%	($5,791)	-100.0%
Vouchers	242	1,572	1,330	261	770	1,115	1,062	($54)	-4.8%	$820	338.7%
Loan management	185	293	90	88	81	90	90	$0	0.0%	($95)	-51.3%
Property disposition	552	536	735	313	435	372	290	($82)	-21.9%	($262)	-47.4%
Conversions to existing,	314	2,338	2,443	2,023	706	35	0	($35)	-100.0%	($314)	-100.0%
Amendments	3,007	4,020	1,069	331	409	840	468	($372)	-44.3%	($2,539)	-84.4%
Subtotal	$19,357	$12,630	$9,332	$9,252	$7,174	$2,983	$2,001	($983)	-32.9%	($17,356)	-89.7%
Public housing											
Conventional	$4,196	$1,232	$0	$895	$941	$81	0	($81)	-100.0%	($4,196)	-100.0%
Indian	472	494	341	368	290	0	0	$0	--	($472)	-100.0%
Amendments	935	372	545	218	273	200	59	($141)	-70.6%	($876)	-93.7%
Lease/other adjustments	30	25	89	381	353	19	16	($3)	-15.1%	($14)	-45.7%
Modernization	1,699	1,800	2,566	1,613	1,676	458	225	($233)	-50.9%	($1,474)	-86.8%
Subtotal, public housi	$7,332	$3,923	$3,541	$3,475	$3,533	$758	$300	($458)	-60.4%	($7,032)	-95.9%
Total obligations	$26,689	$16,554	$12,873	$12,727	$10,707	$3,741	$2,301	($1,441)	-38.5%	($24,388)	-91.4%
Contract Authority											
Net new contract auth	$1,417	$897	$520	$636	$548	$485	0	($485)	-100.0%	($1,417)	-100.0%
Total contract authority	1,155	1,046	772	870	895	570	354	($216)	-37.9%	($801)	-69.4%
Total units under subsidy	3,547	3,508	3,663	3,860	3,943	4,058	4,176	$0	2.9%	$0 $61	17.7%
Housing payment outlays	$5,747	$6,726	$7,786	$10,697	$11,737	$11,790	10,757	($1,033)	-8.8%	$5,019	87.2%
Public housing operating sub	$1,071	$1,493	$1,351	$1,558	$1,494	$1,422	1,233	($189)	-13.3%	$162	15.1%
Public housing modernization											
New budget authority	$1,699	$1,800	$2,566	$1,613	$1,676	$458	225	($233)	-50.9%	($1,474)	-86.8%
Capital costs financed	$927	$858	$1,260	$792	$823	$225	225	$0	0.0%	($702)	-75.7%
202 elderly/handicapped loan	$873	$819	$634	$666	$600	$55	30	($24)	-44.5%	($843)	-96.5%
235 home ownership BA used	$1,650	$628	$1,018	$614	($15)	$55	0	($55)	-100.0%	($1,650)	-100.0%
Units reserved	5,102	4,754	2,630	2,503	4,586	150	0	($150)	-100.0%	($5,102)	-100.0%

8 1986 figures net after Gramm-Rudman sequestration

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries) (HUDSUMM TABLE 1)

TABLE 2. SUBSIDIZED HOUSING UNIT RESERVATIONS, 1980-1987

HUD PROGRAMS:	Actual 1980 (gross)	Actual 1981 (gross)	Actual 1982 (gross)	Actual 1983 (gross)	Actual 1984 (gross)	Actual 1985 (gross)	1986 Estimate (gross)	1987 Proposed (gross)
Section 8								
New construction	75,033	58,108	24,114	15,116	14,488	12,639	100	0
Substantial rehab	17,730	15,753	3,413	456	0	0	0	0
Moderate rehabilitation	26,167	19,916	6,799	14,917	7,074	4,902	1,114	0
Existing	36,336	83,041	23,418	36,163	53,835	36,513	2,300	0
Vouchers	--	--	--	--	14,104	38,142	50,000	50,000
Subtotal, increental unit	155,266	176,818	57,744	66,652	89,501	92,196	53,514	50,000
Loan management, conversions, etc	13,899	7,213	76,216	77,496	54,774	25,654	13,200	12,500
Subtotal, Section 8	169,165	184,031	133,960	144,148	144,275	117,850	66,714	62,500
Public Housing								
Conventional	31,834	33,242	8,944	312	5,212	5,448	350	0
Indian	4,893	3,128	3,192	2,500	2,762	2,178	0	0
Subtotal, public hsg	36,727	36,370	12,136	2,812	7,974	7,626	350	0
Total, Section 8 + pub hsg	205,892	220,401	146,096	146,960	152,249	125,476	67,064	62,500
Section 235	58,907	5,102	4,754	2,630	930	4,701	50	0
Section 236	121	-208	-688	-881	-1739	-9809	-3990	0
Rent supplement	0	-897	-38082	-76436	-21313	-9995	-16825	0
Section 202	(18,720)	(14,828)	(16,038)	(14,112)	(14,277)	(12,639)	(100)	0
Rental development grants#	--	--	--	--	--	4,261	0	0
SUBTOTAL, ADDITIONAL UNITS	251,021	217,185	35,864	(5,223)	75,353	88,980	33,099	50,000
HUD TOTAL, ALL UNITS	264,920	224,398	112,080	72,273	130,127	114,634	46,299	62,500
FARMERS HOME ADMINISTRATION								
502 home ownership loans								
New, purchase	39,374	39,097	35,901	32,697	27,674	26,134	19,590	0
Existing, purchase	21,558	20,910	20,223	17,763	15,023	13,959	10,480	0
Existing, repair or rehab	1,807	1,527	726	754	762	708	530	0
Subtotal, 502	62,739	61,544	56,850	51,214	43,459	40,801	30,600	0
515 rental or coop loans	30,980	26,740	30,500	24,200	27,100	25,687	19,140	0
514/516 farm labor housing	1,490	890	748	326	402	666	500	0
504 very low income repair loa	6,934	5,296	2,771	1,993	2,057	2,315	1,230	0
Subtotal, FmHA loans	102,143	96,470	90,869	77,733	73,018	69,469	54,470	0
504 repair grants##	8,589	7,687	4,205	3,845	3,642	3,715	3,550	0
FMHA TOTAL	110,372	104,157	95,074	81,578	76,660	73,184	58,020	0
TOTAL ADDITIONAL UNITS	361,393	321,342	130,938	76,355	152,013	162,164	91,119	50,000
GRAND TOTAL	375,292	328,555	207,154	153,851	206,787	187,818	104,319	62,500

Low income units only; total units for 1985 were 16,229.
Loans and grants are often combined for the same units.

Source: Low Income Housing Information Service 19-Feb-86

TABLE 3. HUD SUBSIDIZED HOUSING STARTS AND COMPLETIONS, 1980-87

STARTS

HUD PROGRAMS:	1980 Actual	1981 Actual	1982 Actual	1983 Actual	1984 Actual	1985 Actual	1986 Estimate	1987 Estimate
Section 8								
New construction	101,054	49,916	71,344	32,122	14,973	--	--	--
Substantial rehabilitation	31,667	10,512	16,487	10,451	2,673	--	--	--
Subtotal, Section 8	132,721	60,428	87,831	42,573	17,646	9,238	10,000	10,000
Public Housing								
Conventional	36,365	41,660	22,906	23,812	20,313	7,714	8,000	3,000
Indian	4,163	3,947	2,194	3,248	2,130	3,419	2,800	2,500
Subtotal, public housing	40,528	45,607	25,100	27,060	22,443	11,133	10,800	5,500
Total, Section 8 + public hous	173,249	106,035	112,931	69,633	40,089	20,371	20,800	15,500
Section 235	9,577	38,313	6,096	11,587	1,573	1,031	5,205	0
Section 202	(20,850)	(16,895)	(17,253)	(14,112)	(10,709)	(8,753)	(7600)	(7,600)
HUD TOTAL	183,011	144,348	144,348	119,027	41,662	21,402	26,005	15,500

COMPLETIONS

Section 8								
New construction	119,366	119,398	77,382	68,096	51,616	--	--	--
Substantial rehabilitation	16,027	22,132	21,437	17,778	14,137	--	--	--
Subtotal, new and rehab	135,393	141,530	98,819	85,874	65,753	26,943	11,500	10,000
Moderate rehabilitation	72	4,896	11,366	120,693	16,530	4,604	12,000	13,500
Existing (including conversi	107,288	62,324	96,408	108,955	77,625	58,251	79,000	13,000
Vouchers	--	--	--	--	--	11,063	14,500	83,500
Subtotal, Section 8	242,753	208,750	206,593	203,892	225,661	100,861	117,000	120,000
Public Housing								
Conventional	9,835	29,576	25,051	24,814	20,999	16,796	16,000	15,000
Indian	5,274	4,055	3,478	3,062	3,093	2,471	2,800	2,800
Subtotal, public housing	15,109	33,631	28,529	27,876	24,092	19,267	18,800	17,800
Total, Section 8 + public hous	257,862	242,381	235,122	231,768	249,753	120,128	135,800	137,800
Section 235	24,136	38,313	6,096	11,587	1,573	1,031	5,205	0
Section 202	(16,418)	(27,968)	(24,072)	(20,681)	(14,276)	(15,083)	(8,000)	(7,500)
HUD TOTAL	284,301	280,694	241,218	243,355	251,326	121,159	141,005	137,800

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries)

TABLE 4. HIGHLIGHTS OF OTHER HUD PROGRAMS, 1987 COMPARED TO EARLIER YEARS
(Dollars in millions)

Program/Activity	1981 Actual	1984 Actual	1985 Actual	1986 Estimate	1987 Proposed	Change, 1986-87 Amount	Change, 1986-87 Percent	Change, 1981-87 Amount	Change, 1981-87 Percent
Congregate services BA	$0	$0	$4	$0	$0	$0	--	$0	--
Housing counseling	$7.0	$3.5	$3.5	$0.0	$0	$0	--	($7)	-100.0%
Fair Housing/Equal Opportunity									
Fair Housing Initiatives Program	$0.0	$0.0	$0.0	$0.0	$7.0	$7.0	--	$7.0	--
State/local agency aid	$2.0	$4.0	$3.2	$8.5	$4.0	($4.5)	-52.9%	$2.0	100.0%
Agencies assisted	32	92	115	130	110	($20)	-15.4%	$78	243.8%
Community Housing Resources Bds	$0.0	$2.4	$1.5	$2.6	$1.0	($1.6)	-61.5%	$1.0	--
Number assisted	0	76	82	92	50	(42)	-45.7%	82	--
Title VIII complaints received	4,209	4,533	4,882	4,900	4,980	80	1.6%	771	18.3%
processed	3,931	4,642	4,112	4,850	5,100	250	5.2%	1,169	29.7%
Compliance reviews completed	549	249	141	140	145	5	3.6%	(404)	-73.6%
Homesteading outlays	$7.0	$16.3	$12.2	$15.3	$14.9	($0.4)	-2.6%	$7.9	112.9%
Single family units conveyed	1,165	1,519	552	1,063	800	($263)	-24.7%	($365)	-31.3%
Multifamily properties	15	0	0	0	0	$0	--	(15)	-100.0%
312 rehab loans	$85.0	$86.1	$75.0	$11.0	$0.0	($11.0)	-100.0%	($85.0)	-100.0%
Number of loans	3,346	3,475	3,750	410	0	($410)	-100.0%	(3,346)	-100.0%
COMMUNITY DEVELOPMENT									
Community Devel Block Grants[1]	$3,695	$3,468	$3,472	$2,990	$2,125	($866)	-24.9%	($1,570)	-42.5%
Urban Devel Action Grants	$675	$440	$440	$109	0	($109)	-?4.9%	($675)	-100.0%
Rental rehab grants	NA	$300	$0	$0	0	$0	--	--	--
Units rehabilitated	NA	29,000	40,000	NA	0	--	--	--	--
MORTGAGE INSURANCE/FINANCING									
Federal Housing Administration									
Insurance limitation	$34,155	$50,900	$50,900	$57,420	$50,900	($6,520)	-12.8%	$16,745	49.0%
Applications (units)	550,296	525,127	950,086	982,800	709,300	(274,500)	-28.9%	159,004	28.9%
Units insured	408,129	441,747	437,799	664,500	552,900	(111,600)	-25.5%	144,771	35.5%
Claims paid (units)	46,695	65,075	72,817	70,460	68,970	(1,490)	-2.0%	22,275	47.7%
Claims paid	$789	$1,764	$2,243	$2,322	$2,176	($146)	-6.3%	$1,387	175.8%
TMAF (Temp mortgage asstc)	0	0	$65.4	$84.4	$73.8	($10.6)	-16.2%	$73.8	--
HUD-Owned units, end of year									
Single family	19,339	20,081	27,485	25,162	21,818	(3,344)	-12.2%	2,479	12.8%
Multifamily	32,133	13,577	14,388	4,665	4,743	78	0.5%	(27,390)	-85.2%
Total units	51,472	33,658	41,873	29,827	26,561	(3,266)	-7.8%	(24,911)	-48.4%
HUD-assigned mortgages, year end									
Single family units	19,696	32,441	37,238	40,252	40,214	(38)	-0.1%	20,518	104.2%
Multifamily units	218,928	166,303	161,227	153,697	119,103	(34,594)	-21.5%	(99,825)	-45.6%
Total units	238,624	198,744	198,465	193,949	159,317	(34,632)	-17.4%	(79,307)	-33.2%
Government National Mortgage Assn									
Mortgage-backed securities									
Limit on commitments	$84,000	$68,250	$68,250	$65,315	$68,250	$2,935	4.3%	$4,250	6.6%
Commitments issued in year	$42,150	$39,665	$54,597	$60,464	$55,357	($5,107)	-9.4%	$13,207	31.3%
Guarantees issued in year	$16,853	$32,090	$36,277	$43,188	$39,541	($3,648)	-10.1%	$22,688	134.6%
Research and technology	$40.0	$19.0	$16.9	$16.2	$18.9	$2.7	16.0%	($21.1)	-52.8%
Salaries and Expenses, total	$593	$570	576	572	$585	$19	6.6%	($333)	-56.2%
Transfers from FHA/other funds	$264	$269	$289	$241	$260	$19	6.7%	($4)	-1.6%
Appropriation to HUD	$329	$301	$288	$241	$260	$19	6.7%	($69)	-21.0%
Staffing (permanent/fulltime)	15,122	11,828	11,375	11,183	10,791	(392)	-3.4%	($4,331)	-28.6%

1 $500 million deferred from 1986 to 1987

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries)

TABLE 5. FARMER'S HOME BUDGET DATA (Dollars in millions)

Program	1980 Actual	1984 Actual	1985 Actual	1986 Estimate	1987 Proposed	1986-87 Change Dollars	1986-87 Change Percent	1980-87 Change Dollars	1980-87 Change Percent
SUBSIDIZED LOANS									
502 Home ownership,new	$1,392	$1,137	$1,116	$870	$0	($870)	-100.0%	($1,392)	-100.0%
Existing	783	675	642	502	0	(502)	-100.0%	(783)	-100.0%
Repair/rehab	45	24	23	18	0	(18)	-100.0%	(45)	-100.0%
Subtotal	$2,220	$1,836	$1,781	$1,390	$0	($1,390)	-100.0%	(2,220)	-100.0%
504 repair loans	22	7	6	4	0	(4)	-100.0%	(22)	-100.0%
515 rental housing loans	825	919	903	700	0	(700)	-100.0%	(825)	-100.0%
514 farm labor hsg loans	25	5	18	12	0	(12)	-100.0%	(25)	-100.0%
Subtotal, subsidized	$3,092	$2,768	$2,710	$2,106	$0	(2,106)	-100.0%	(3,092)	-100.0%
UNSUBSIDIZED LOANS	625	0	0	0.6	0	-0.6	-100.0%	(625)	-100.0%
TOTAL LOANS	$3,773	$2,768	$2,710	$2,107	$0	($2,107)	-100.0%	(3,773)	-100.0%
Low/moderate income loan servicing	$230	$8	$9	$10	0	(10)	-100.0%	(230)	-100.0%
TOTAL, RURAL HSG INS FUND	$3,773	$2,775	$2,718	$2,117	$0	(2,117)	-100.0%	(3,773)	-100.0%
REIMBURSEMENT TO RURAL HOUSING INSURANCE FUND	$2,280	$1,508	$1,844	$1,431	1,515	83	5.8%	(765)	-33.6%
GRANTS AND PAYMENTS									
Rural rental assistance	$393.0	$111.0	$52.3	$0.0	$0.0	$0.0	--	-393.0	-100.0%
504 home repairs	24.0	12.5	12.5	12.4	0.0	-12.4	-100.0%	-24.0	-100.0%
Farm labor housing	25.0	4.4	0.0	9.9	0.0	-9.9	-100.0%	-25.0	-100.0%
Mutual and self-help hsg	5.0	6.0	8.0	8.0	0.0	-8.0	-100.0%	-5.0	-100.0%
Water & waste disposal	290.0	90.0	115.0	114.3	0.0	-114.3	-100.0%	-290.0	-100.0%
Construction defect coop	2.0	2.0	1.0	0.7	0.0	-0.7	-100.0%	-2.0	-100.0%
Rural community fire prot	4.0	3.3	3.3	3.2	0.0	-3.2	-100.0%	-4.0	-100.0%
Rural housing preservation	0.0	15.0	0.0	0.0	0.0	0.0	--	0.0	--
Subtotal	752.0	244.1	192.0	148.6	0.0	-148.6	-100.0%	-752.0	-100.0%
Salaries and expenses	236.0	330.4	352.3	373.9	382.6	8.7	2.3%	146.6	62.1%
Total	988.0	574.5	544.3	522.5	382.6	-139.9	-26.8%	-605.4	-61.3%
RURAL DEVELOPMENT LOANS									
Water & Waste Disposal	$700	$270	$340	$340	0	-340	-100.0%	(700)	-100.0%
Community facilities	240	130	115	100	0	-100	-100.0%	(240)	-100.0%
Industrial development	1,074	124	61	100	0	-100	-100.0%	(1,074)	-100.0%
Total	$2,014	$524	$516	$540	$0	-540	-100.0%	($2,014)	($3)
REIMBURSEMENT TO RURAL DEVEL. INSURANCE FUND	$92	$478	$560	$538	$734	$195	36.3%	$642	697.5%

Source: Low Income Housing Information Service (based on data in Appendix Budget of U.S. Govt, 1982-86)

TABLE 4. REVENUE LOSSES FROM TAX EXPLANATIONS, 1980-87
(In millions of dollars)

	FY 1980	FY1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	1986-87 Change Amount	1986-87 Change %	1980-87 Change Amount	1980-87 Change %
HOMEOWNER DEDUCTIONS:												
Mortgage interest deductions	15,615	20,140	23,305	20,800	22,735	24,785	26,920	29,560	2,640	9.8%	13,945	89.3%
Property tax deductions	7,310	9,125	8,360	8,010	8,820	9,315	10,060	10,865	805	8.0%	3,555	48.6%
Subtotal	22,925	29,270	31,665	28,810	31,555	34,100	36,980	40,425	3,445	9.3%	17,500	76.3%
Capital gains deferral	1,010	1,160	1,625	1,325	1,705	1,775	1,935	2,090	155	8.0%	1,080	106.9%
Capital gains exclusion	535	450	585	600	755	830	910	990	80	8.8%	455	85.0%
Subtotal	1,545	1,610	2,210	1,925	2,460	2,605	2,845	3,080	235	8.3%	1,535	99.4%
Residential energy credits												
Supply incentives	--	--	250	325	325	330	315	55	(260)	-82.5%	--	--
Conservation incentives	--	--	220	285	270	245	190	0	(190)	-100.0%	--	--
Subtotal	485	575	470	610	595	575	505	55	(450)	-89.1%	(430)	-88.7%
TOTAL	24,955	31,455	34,345	31,345	34,610	37,280	40,330	43,560	3,230	8.0%	18,605	74.6%
INVESTOR DEDUCTIONS:												
Tax exempt bonds												
Owner-occupied units	--	--	905	1,360	1,500	1,685	2,060	2,425	365	17.7%	--	--
Rental housing	--	--	395	710	730	755	940	1,065	125	13.3%	--	--
Subtotal	447	1,120	1,300	2,070	2,230	2,440	3,000	3,490	490	16.3%	3,043	680.8%
Five-year rehab amortization	15	30	45	60	60	7	75	80	5	6.7%	65	433.3%
Deferring of interest etc	659	755	--	--	--	--	--	--	--	--	--	--
Block depreciation	385	--	--	695	680	800	885	960	75	8.5%	575	149.4%
"All-Savers" certificates	0	0	0	935	320	0	0	0	0	--	0	--
Subtotal	1,059	785	960	1,980	1,060	870	960	1,040	80	8.3%	(19)	-1.8%
TOTAL	1,506	1,875	2,260	4,050	3,290	3,310	3,960	4,530	570	14.4%	3,024	200.8%
GRAND TOTAL	$26,461	$33,330	$36,625	$35,395	$37,900	$40,590	$44,290	$48,090	$3,800	8.6%	$21,629	81.7%
PERCENT OF TOTAL:												
Homeowner deductions												
Interest + property taxes	86.6%	87.8%	86.5%	81.4%	83.3%	84.0%	83.5%	84.1%				
All homeowner deductions	94.3%	94.4%	91.8%	88.6%	91.3%	91.8%	91.1%	90.6%				
Investor deductions												
Tax-exempt bonds	1.7%	3.4%	3.5%	5.8%	5.9%	6.0%	6.8%	7.3%				
Other	4.0%	2.3%	2.7%	5.6%	2.8%	2.1%	2.2%	2.2%				
All investor deductions	5.7%	5.6%	6.2%	11.4%	8.7%	8.2%	8.9%	9.4%				

SOURCE: Low Income Housing Information Service

TABLE 7. PROPOSED CUTS AND REVISIONS IN 1986 BUDGET
(Dollars in millions)

	1986 Appropriation	Administration Revision	Change No.	%
Budget Authority				
Carryover	918	918	0	0.0%
Recaptures	518	538	20	3.9%
Rescission of recaptures	(518)	(538)	(20)	3.9%
New Authority	9,966	9,966	0	0.0%
Proposed deferral	--	(2,301)	--	--
Proposed rescission	--	(4,413)	--	--
Sequestration	(429)	(429)	0	0.0%
Total available	10,456	3,741	(6,714)	-64.2%
Public Housing				
Public Housing	940	81	(860)	-91.4%
Indian housing	315	0	(315)	-100.0%
Amendments	288	200	(88)	-30.6%
Lease adjustments	18	19	1	4.1%
Modernization	1,441	458	(983)	-68.2%
Subtotal	3,003	758	(2,245)	-74.7%
Section 8				
Section 202	1,553	13	(1,540)	-99.2%
Section 202 amendments	231	230	(1)	-0.2%
Subtotal	1,784	243	(1,541)	-86.4%
Housing vouchers				
Freestanding	668	942	274	41.0%
Section 8 opt-outs	18	19	1	4.1%
Public housing demolitions	45	47	2	4.1%
Voucher FHA fees	86	107	21	23.9%
Subtotal	818	1,115	297	36.4%
Existing/Mod Rehab:				
Certificates	2,371	184	(2,187)	-92.2%
Moderate rehab	886	103	(783)	-88.4%
Subtotal	3,257	287	(2,970)	-91.2%
Existing - project-based				
Loan management	87	90	4	4.1%
Property disposition	427	372	(55)	-12.8%
Subtotal	513	462	(51)	-10.0%
Conversions - Section 23	45	35	(10)	-21.2%
Amendments:				
New/sub rehab	44	50	6	13.1%
Existing housing	469	450	(19)	-4.1%
Project reserve/Loan managem	325	280	(44)	-13.7%
Moderate rehab	35	40	5	13.9%
Property disposition	19	20	1	4.1%
subtotal	892	840	(52)	-5.8%
SUBTOTAL, SECTION 8	7,309	2,983	(4,326)	-59.2%
TOTAL, PUBLIC HSG AND SECTION	10,312	3,741	(6,571)	-63.7%
HUDAG	72	0	(72)	-100.0%
Rental rehabilitation	72	0	(72)	-100.0%
TOTAL USE OF BUDGET AUTHORITY	10,456	3,741	(6,714)	-64.2%

Source: Low Income Housing Information Service (compiled from HUD Budget Summaries)

The budget proposes major rescissions and deferrals in funds already appropriated for subsidized housing and provides no additional funds for subsidized housing -- either in urban areas through HUD or in rural areas through Farmers Home Administration programs. A total of $6.7 billion, or 70% of the $9.5 billion (adjusted for sequestration) appropriated this year for HUD's low income housing programs would be rescinded or deferred. Of this amount, $4.4 billion is proposed for rescission and $2.3 billion for deferral. This 1986 deferral, and an expected $264 million in recaptures from prior years' appropriations, is the only funding proposed for HUD-subsidized housing in 1987.

In absorbing these cuts, HUD continues to press for using vouchers rather than programs which would add to the stock of affordable housing. Except for a token level (450 units in all), the public housing and Section 202 elderly/handicapped programs would end this year. Even so, some 40,000 fewer households would be assisted in 1986 than under the appropriation adopted by the Congress. Next year's program level (funded with 1986 deferrals) would be only 50,000 vouchers, evenly divided between metropolitan and nonmetropolitan areas, to compensate in some small way for the proposed termination of all Farmers Home Administration rural housing programs. Instead of "doing more with less", as HUD sometimes claims, it is clearly proposing to do far less with less.

The cuts in budget authority mean that thousands of families who desperately need shelter -- many of them homeless families -- will be unable to get it. But the HUD axe also falls on hundreds of thousands of families now receiving assistance under the Section 8 Existing and housing voucher programs. HUD is proposing to freeze the fair market rents, on which the HUD subsidy is based, in 1987. Unless landlords are willing to absorb increased costs, it appears that families now getting Section 8 assistance or with housing vouchers will have to pay for the customary annual rent increases imposed by landlords out of their own pockets.

The list of housing programs which would be terminated by the Administration includes the following:

HUD programs:

Housing for elderly and handicapped	New or substantially rehabilitated housing built by nonprofits for elderly or handicapped people. Sometimes called the "202 program."
Congregate services	Provides meals and other services to selected elderly and handi-

	capped low income housing developments.
Public housing	Construction, purchase, or rehabilitation of additional low-rent public housing.
Indian housing	Construction of additional low-rent housing on Indian reservations.
Moderate rehabilitation	Rehabilitation of housing for low income people with Section 8 assistance.
Rental rehabilitation grants	Grants to cover half of the cost of rehabilitating rental properties in low income neighborhoods, with vouchers or other housing assistance provided residents who cannot afford post-rehab rents.
Rental Housing Development grants (HoDAG's)	Grants for new rental housing production in areas with acute shortages, with at least 20% of the units set aside for families with incomes below 80% of median.
Counseling	Funding for social service agencies assisting renters and owners to find decent housing and avoid foreclosure if they are in financial difficulties.
Farmers Home Programs:	
Farm labor housing	Loans and grants to build housing for migrant and seasonal farmworkers.
Mutual and self-help housing	Technical assistance to help people build their own houses, with additional financing assistance provided under other FmHA programs.
Very low income housing	Grants to very low income home repair grants owners to help pay for emergency repairs.

Rural rental housing	Low interest loans to build or rehabilitate rental housing for low and moderate income people.
Home ownership loans	Low interest loans to help low and moderate income people build or buy modest housing.

In addition to these outright program terminations, there is a major reduction in operating subsidies for low rent public housing. These subsidies are essential to cover the difference between rental income and the cost of operating low-rent public housing. A second major cut in public housing is the suspension of additional funding for the Comprehensive Improvement Assistance Program (CIAP) which enabled housing authorities to deal with the many physical problems facing older public housing developments. Instead, funds will be provided only for emergency repairs.

Finally, the Administration is proposing a major cut in funding for the Community Development Block Grant program. A $30% reduction in appropriations is proposed for 1987 (from $3,124.8 million in 1986 to $2,124.8 million). The impact of this will be immediate, $500 million of 1986 funds would be deferred to 1987. As already noted, many communities use CDBG funds to assist elderly homeowners. A substantial portion goes for housing rehabilitation and all funds must be used for the principal benefit of low and moderate income people or for eliminating or preventing slums and blight or meeting other urgent needs. Similarly, the rural water and sewer program of the Farmers Home Administration, which serves low income communities, would be wiped out.

These cuts come in the face of rising low income housing needs. The most visible manifestation of the low income housing crisis is the increasing number of homeless people, particularly families. The major cause of homelessness is the unavailability of low cost housing. The Low Income Housing Information Service has estimated that in 1985, there were over 8 million renter households with incomes below $7,366 (50% of median renter income), but there were only 4.2 million units (regardless of size, quality, location, or availability) with rents they could afford at 30% of income. The housing gap at this income level was almost 4 million units. This is more than double the 1980 gap of 1.8 million units (See Table 8).

It should perhaps be noted that in responding to criticisms of low income housing cuts, the Administration often makes two related points: (1) that the number of subsidized low income housing units has increased substantially since 1981 and (2) that outlays for low income housing assistance have also increased substantially during this period. Even providing vouchers or

Table 8.
THE GROWING RENTAL HOUSING CRISIS: 1980 COMPARED WITH 1985

Area	1980 Renter hh (50% median	1980 Affordable rent at 30%	1980 Affordable Units	1980 Gap or surplus	1980 Rental crisis index	1985 Renter hh (50% median	1985 Affordable rent at 30% of income	1985 Affordable Units	1985 GAP	1985 RENTAL CRISIS INDEX	INCREASE IN GAP 1980-85
Alabama	100,155	$110	105,250	5,095	0.952	114,176	$143	88,050	(26,126)	1.297	31,221
Alaska	13,701	$219	12,881	(820)	1.064	15,619	$284	13,497	(2,122)	1.157	1,302
Arizona	75,802	$142	54,093	(21,709)	1.401	86,414	$185	45,407	(41,007)	1.903	19,299
Arkansas	60,149	$108	63,324	3,175	0.950	68,570	$141	57,205	(11,364)	1.199	14,539
California	951,121	$154	462,348	(488,773)	2.057	1,084,277	$200	294,871	(789,406)	3.677	300,634
Colorado	94,096	$146	58,236	(35,860)	1.616	107,269	$189	47,542	(59,727)	2.256	23,868
Connecticut	98,605	$157	65,902	(32,703)	1.496	112,409	$204	40,106	(72,303)	2.803	39,600
Delaware	18,001	$141	10,326	(5,675)	1.550	18,241	$183	8,155	(10,086)	2.237	4,410
Dist of Colum	40,829	$155	28,248	(12,581)	1.445	46,545	$201	14,866	(31,679)	3.131	19,098
Florida	296,768	$130	176,311	(120,457)	1.683	338,315	$170	149,544	(188,771)	2.262	68,314
Georgia	163,805	$124	159,874	(3,931)	1.025	186,738	$161	120,916	(65,822)	1.544	61,891
Hawaii	35,534	$173	34,662	(872)	1.025	40,509	$225	26,803	(13,706)	1.511	12,834
Idaho	22,680	$130	18,222	(4,458)	1.245	25,855	$169	16,331	(9,524)	1.583	5,066
Illinois	377,653	$155	260,596	(117,057)	1.449	430,524	$201	154,265	(276,260)	2.791	159,203
Indiana	136,282	$143	119,115	(17,167)	1.144	155,361	$186	97,289	(58,072)	1.597	40,905
Iowa	74,128	$142	64,023	(10,105)	1.158	84,506	$185	51,834	(32,672)	1.630	22,567
Kansas	64,952	$140	63,232	(1,720)	1.027	74,045	$182	50,207	(23,837)	1.475	22,117
Kentucky	94,622	$116	99,873	5,251	0.947	107,869	$151	81,268	(26,600)	1.327	31,852
Louisiana	121,655	$125	119,683	(1,972)	1.016	138,687	$163	95,411	(43,275)	1.454	41,303
Maine	28,701	$117	21,788	(6,913)	1.317	32,722	$152	19,041	(13,681)	1.718	6,768
Maryland	138,800	$169	102,686	(36,114)	1.352	158,231	$220	56,459	(101,772)	2.803	65,658
Massachusetts	215,728	$143	150,938	(64,790)	1.429	245,929	$185	103,919	(142,010)	2.367	77,220
Michigan	216,310	$147	139,787	(78,523)	1.562	248,874	$191	118,202	(130,671)	2.105	52,149
nnesota	102,371	$137	77,080	(25,291)	1.328	116,703	$179	55,578	(61,125)	2.100	35,834
Mississippi	59,864	$102	64,902	5,038	0.922	68,245	$133	60,592	(7,653)	1.126	12,692
Missouri	136,150	$130	119,834	(16,316)	1.136	155,210	$169	98,461	(56,749)	1.576	40,433
Montana	22,291	$128	22,996	705	0.969	25,411	$166	19,194	(6,218)	1.324	6,923
Nebraska	45,119	$139	44,626	(493)	1.011	51,436	$181	34,229	(17,206)	1.503	16,713
Nevada	30,768	$161	14,090	(16,678)	2.184	35,076	$209	9,635	(25,441)	3.641	8,763
New Hampshire	26,163	$144	18,109	(8,054)	1.445	29,826	$188	15,108	(14,719)	1.974	6,665
New Jersey	242,119	$158	139,436	(102,663)	1.736	276,015	$206	83,711	(192,304)	3.297	89,641
New Mexico	35,225	$125	31,734	(3,491)	1.110	40,156	$161	28,343	(11,813)	1.417	8,321
New York	814,315	$145	489,565	(324,750)	1.663	928,319	$188	390,630	(537,689)	2.376	212,939
North Carolina	161,466	$125	154,105	(7,361)	1.048	184,072	$162	136,009	(48,062)	1.353	40,701
North Dakota	17,787	$131	18,153	366	0.980	20,277	$170	13,832	(6,445)	1.466	6,811
Ohio	302,702	$138	232,871	(69,831)	1.300	345,080	$180	179,494	(165,586)	1.923	95,755
Oklahoma	81,989	$127	75,987	(6,002)	1.079	93,467	$165	61,682	(31,785)	1.515	25,783
Oregon	86,410	$141	51,040	(35,370)	1.693	98,508	$184	40,850	(57,657)	2.411	22,287
Pennsylvania	317,236	$136	263,253	(53,983)	1.205	361,649	$176	208,344	(153,305)	1.736	99,322
Rhode Island	34,879	$125	26,154	(8,725)	1.334	39,762	$163	19,262	(20,500)	2.064	11,775
South Carolina	76,856	$124	81,334	4,478	0.945	87,615	$161	70,536	(17,079)	1.242	21,557
South Dakota	18,630	$113	20,421	1,791	0.912	21,238	$147	16,453	(4,786)	1.291	6,577
Tennessee	127,106	$119	126,497	(609)	1.005	144,900	$154	97,660	(47,240)	1.484	46,631
as	439,920	$147	376,465	(63,455)	1.169	501,509	$191	285,175	(216,333)	1.759	152,878
..ah	32,549	$142	21,810	(10,739)	1.492	37,448	$185	18,791	(18,657)	1.993	7,917
Vermont	13,941	$122	8,717	(5,224)	1.599	15,893	$159	8,142	(7,751)	1.952	2,527
Virginia	160,371	$151	115,268	(45,103)	1.391	182,823	$197	96,930	(85,892)	1.886	40,789
Washington	132,297	$146	89,814	(42,483)	1.473	150,819	$189	69,547	(81,271)	2.169	38,788
West Virginia	45,348	$121	51,041	5,693	0.888	51,696	$157	46,403	(5,293)	1.114	10,986
Wisconsin	131,224	$146	93,064	(38,160)	1.410	149,595	$190	75,923	(73,671)	1.970	35,512
Wyoming	12,743	$173	15,133	2,390	0.842	14,527	$225	9,345	(5,182)	1.555	7,572
TOTAL	7,147,916	$142	5,353,301	(1,794,615)	1.335	8,148,959	$184	4,206,023	(3,942,936)	1.937	2,148,321

Source: Estimated by Cushing Dolbeare for Low Income Housing Information Service

certificates for existing housing takes some time -- generally about two years from appropriation of funds by Congress to an occupied unit; new construction or substantial rehabilitation takes much longer -- sometimes five or six years. Each year, the budget authority requested or appropriated for low income housing includes all of the payments which will be made over the life of the subsidy contract. So this year's increase in outlays is the direct result of policies which the Reagan Administration has done its best to reverse.

IV. Causes of the Deficit and The Impact of Gramm-Rudman-Hollings

Before addressing the impact of the Gramm-Rudman-Hollings measure, it is important to note the sources of the deficit which this act is intended to end within five years. It is entirely the result of two major factors: (1) the reduction in federal revenues resulting from the tax cut made in 1981 and (2) the increased level of federal spending since 1981, with savage cuts in low income and other domestic programs more than offset by increases in the military budget.

Chart 7 (Low Income and Military Spending) shows the contrast, in constant 1986 dollars, between budget authority for the National Defense Function and budget authority for Low Income Programs (Medicaid, net Subsidized Housing, Food and Nutrition, SSI, AFDC, Earned Income Tax Credit, social services block grants, community services block grants, and other income security). Chart 8 (Components of Budget Change, 1980-87) shows the additional costs since 1980: changes in the tax law have reduced revenues by **$1 trillion**; military spending has added $739 million in outlays; Social Security and Medicare costs have added $690 million; and net interest, $618 million. In contrast, the increases in outlays for low income programs have totalled only $162 million, and the cost of increases for all other programs is $311 million.4

The sequestration formula contained in Gramm-Rudman-Hollings thus fails to address the cause of the deficit problem, except for the proviso that half of the cuts must come from the military budget. However, there is no mechanism to raise the revenue that is needed to avoid major cuts; interest and Social Security are off limits, as is much of Medicare. Thus, with the exception of some protected low income programs, the brunt of sequestration, if it comes to that, would be borne by the low income and other programs, which have contributed least to the problem and already taken most of the cuts over the past five years.

The Reagan Administration's alternative to sequestration for 1987 is even worse for low income programs. In the case of housing -- not just elderly housing, but all low income housing -- it is virtual annihilation.

CHART 7

LOW INCOME AND MILITARY SPENDING

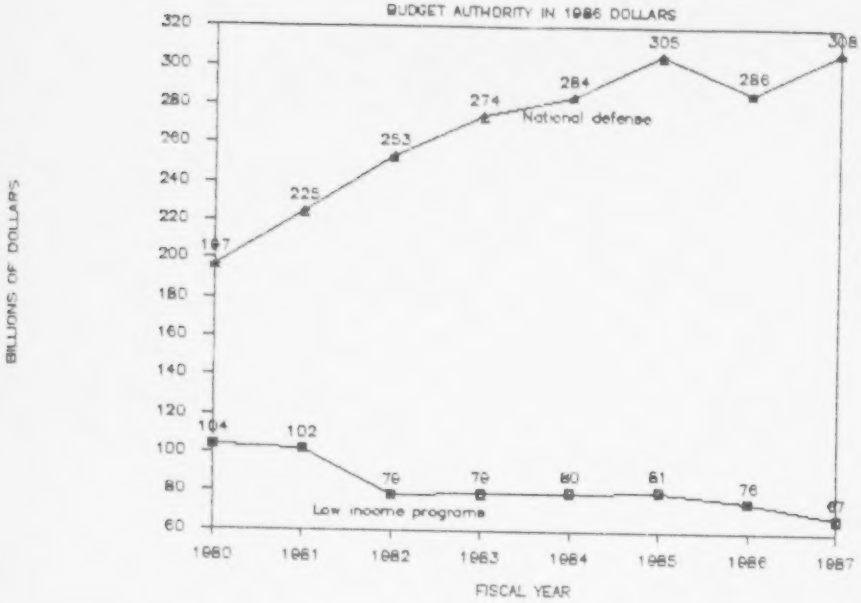
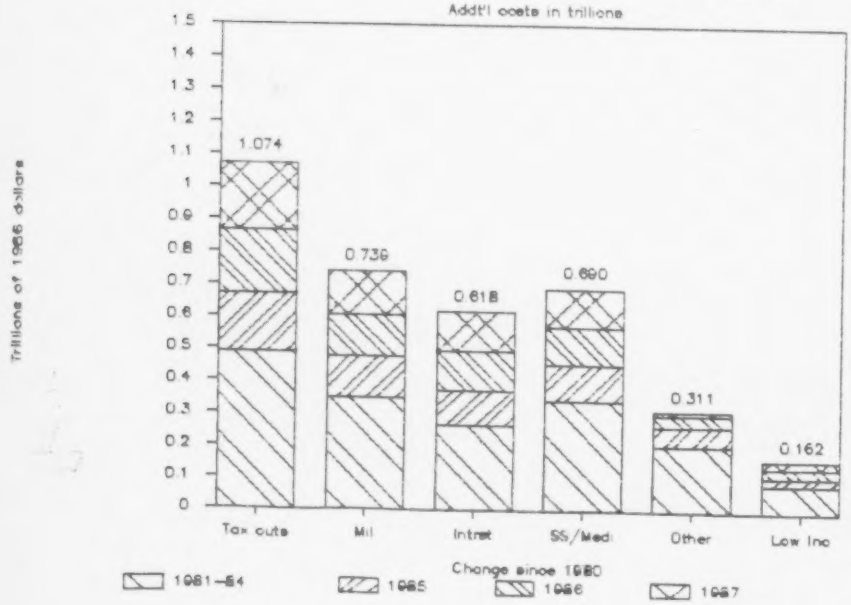


CHART 8

COMPONENTS OF BUDGET CHANGE, 1980–87



Notes:

1. These data are from Characteristics of Households and Persons Receiving Selected Noncash Benefits: 1984, U.S. Bureau of the Census, Current Population Reports, Consumer Income, Series P-60, No. 150, November 1985.

2. The Commission's Interim Report found that, with the exception of the estimated 2.5 million households already in subsidized housing, almost all of the 10 million renter households with incomes below 50% of median (a substantially higher standard than the poverty level) either lived in substandard housing or suffered from cost overburden.

3. The comparison begins with FY 1983, the first full budget prepared by the Reagan Administration. For FY 1982, the Reagan Administration substantially reduced the level initially requested by outgoing President Carter. The Carter FY 1982 budget request, submitted just before President Carter left office, was for $29,664 million in additional budget authority. The Reagan Administration revised this request downward to $19,773 million. (Information from HUD Budget Summaries, 1982-1987.)

4. The calculations, in 1986 constant dollars, are the changes in outlays from year to year, based on information provided in official volumes of Budget of the United States Government for 1987 and previous years. Similarly, the revenue loss from changes in tax laws is drawn from a table appearing each year in the Budget.

Item 3

UNITED STATES DEPARTMENT OF
COMMERCE
NEWS
WASHINGTON, D.C. 20230

BUREAU OF
THE
CENSUS

Wallace Fraser
(301) 763-2880

For Release 10:00 AM EST, January 29,1986
CB86-19

CENSUS BUREAU REPORTS ON RESIDENTIAL VACANCIES AND HOMEOWNERSHIP

(Advance release of data to be presented in Series H-111, No. 85-Q4)

National vacancy rates in the fourth quarter 1985 were 6.7 percent in rental housing and 1.6 percent in homeowner housing, the Department of Commerce's Census Bureau announced today. The Bureau said that the rental vacancy rate showed some evidence of being higher than the rate in the same quarter a year ago, but was not significantly different from the rate in the third quarter 1985. Fourth quarter rental vacancy rates have shown upward movement since 1980. In homeowner housing, the vacancy rate showed some evidence of being lower than the rate in the third quarter 1985, but was not significantly different from the rate in the same quarter a year ago.

Table 1.--RENTAL AND HOMEOWNER VACANCY RATES, FOR THE UNITED STATES: 1960,1965,1970,1975 and 1979 to 1985

Year	Rental Vacancy Rates				Homeowner Vacancy Rates			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1985....	6.3	6.2	6.8	6.7	1.8	1.9	1.8	1.6
1984....	5.6	5.5	6.0	6.3	1.6	1.7	1.7	1.7
1983....	5.7	5.5	5.8	5.5	1.4	1.5	1.6	1.6
1982....	5.3	5.1	5.3	5.5	1.4	1.6	1.5	1.6
1981....	5.2	5.0	5.0	5.0	1.3	1.3	1.5	1.4
1980....	5.2	5.6	5.7	5.0	1.3	1.4	1.4	1.4
1979[1]...	5.1	5.5	5.7	5.4	1.1	1.1	1.2	1.3
1979[2]...	4.8	5.0	5.2	5.0	1.0	1.1	1.1	1.1
1975....	6.1	6.3	6.2	5.4	1.2	1.2	1.4	1.2
1970....	5.4	5.4	5.3	5.2	1.0	1.0	1.1	1.1
1965....	8.5	8.2	7.8	8.5	1.7	1.5	1.6	1.5
1960....	8.0	8.0	8.3	8.4	1.2	1.3	1.3	1.3

[1]1979 revised rates.
[2]Rates as published in 1979 before revisions in processing were employed.

(2)

In the fourth quarter 1985, the rental vacancy rate in areas outside SMSAs was higher than the rate in the suburbs, but was not significantly different from the rate in central cities. The rental vacancy rate in central cities was not significantly different from the rate in the suburbs. The homeowner vacancy rate in central cities was higher than the rate in the suburbs, but was not significantly different from the rate in areas outside SMSAs. The homeowner vacancy rate in areas outside SMSAs was higher than the rate in the suburbs.

Statistics for the third and fourth quarters for inside SMSAs, in central cities, in suburbs, and in areas outside SMSAs may not be entirely comparable to similar data published in earlier quarters. The Current Population Survey (CPS), which produces these vacancy data, began introduction of a redesigned sample in April 1984. The sample cases selected from the 1970 census frame have been replaced with sample cases selected from the 1980 census frame as of the third quarter 1985. As a result of these changes in the CPS sample, discontinuity may be introduced in the vacancy data for SMSAs, central cities, suburbs, and areas outside SMSAs. The full effect on the estimates is not presently known.

Table 2.--VACANCY RATES FOR RENTAL AND HOMEOWNER UNITS, BY AREA: FOURTH QUARTER 1985 and 1984

Area	Rental Vacancy Rates				Homeowner Vacancy Rates			
	Fourth quarter 1985	Fourth quarter 1984	Standard error on 1985 rate	Standard error on difference	Fourth quarter 1985	Fourth quarter 1984	Standard error on 1985 rate	Standard error on difference
United States...	6.7	6.3	0.2	0.2	1.6	1.7	0.1	0.1
Inside SMSAs[1]...	6.4	6.1	0.2	0.3	1.5	1.5	0.1	0.1
In central cities[1].....	6.6	6.8	0.2	0.4	2.0	1.7	0.1	0.2
Not in central cities[1].....	6.2	5.3	0.3	0.4	1.3	1.4	0.1	0.1
Outside SMSAs[1]..	7.3	6.7	0.3	0.5	1.7	1.9	0.1	0.1
Northeast.....	3.4	3.9	0.2	0.4	0.8	0.9	0.1	0.1
Midwest..... (formerly North Central)	6.2	6.3	0.3	0.5	1.5	1.5	0.1	0.1
South.....	9.1	8.7	0.3	0.4	1.9	2.1	0.1	0.1
West.....	6.8	5.3	0.3	0.4	1.9	1.9	0.1	0.2

[1]1984 and 1985 rates may not be comparable, see text.

(3)

Among the regions, the rental and homeowner vacancy rates were lowest in the Northeast. The rental vacancy rate was highest in the South. The homeowner vacancy rates in the South and West were not significantly different from each other, but both were higher than the rate in the Midwest.

The name of the North Central region has been changed to the Midwest region. This is a name change only, and there has been no change in the component states.

In addition to the vacancy rates shown in tables 1 and 2 for "all" vacant units; i.e., those with and without plumbing, vacancy rates are also presented in table 3 for vacant for-rent and vacant for-sale-only units "with all plumbing facilities." For the United States, the vacancy rate in rental units "with all plumbing facilities" was 6.3 percent of all rental units while for homeowner units this rate was 1.5 percent of all homeowner units.

Table 3.--RENTAL AND HOMEOWNER VACANCY RATES FOR VACANT UNITS WITH ALL PLUMBING FACILITIES: FOURTH QUARTER 1985 and 1984

Area	Vacant For-Rent Units With All Plumbing Facilities				Vacant For-Sale-Only Units With All Plumbing Facilities			
	Fourth quarter 1985	Fourth quarter 1984	Standard error on 1985 rate	Standard error on difference	Fourth quarter 1985	Fourth quarter 1984	Standard error on 1985 rate	Standard error on difference
U.S.....	6.3	5.8	0.2	0.2	1.5	1.6	0.1	0.1
Inside SMSAs[1]..	6.1	5.7	0.2	0.2	1.4	1.5	0.1	0.1
Outside SMSAs[1]..	6.7	6.1	0.3	0.4	1.6	1.8	0.1	0.1

[1]1984 and 1985 rates may not be comparable, see text.

(4)

During the fourth quarter 1985, about 63.5 percent of all occupied units in the United States were occupied by their owners. The homeownership rate was lower than the rate in the same quarter a year ago, but was not significantly different from the rate in the third quarter 1985. The homeownership rates for the fourth quarter have shown downward movement since 1980.

Table 4. HOMEOWNERSHIP RATES FOR THE UNITED STATES: 1980 to 1985

Year	Homeownership rates[1]			
	First quarter	Second quarter	Third quarter	Fourth quarter
1985.....	64.1	64.1	63.9	63.5
1984.....	64.6	64.6	64.6	64.1
1983.....	64.7	64.7	64.8	64.4
1982.....	64.8	64.9	64.9	64.5
1981.....	65.6	65.3	65.6	65.2
1980.....	65.5	65.5	65.8	65.5

[1]Standard errors for quarterly homeownership rates for the United States generally are 0.2 percent.

The data in this release are the result of a sample survey and are, therefore, subject to sampling variability. For example, the standard error on the estimated rental vacancy rate of 6.7 is 0.2 percentage points. Consequently, the 68-percent confidence interval as shown by these data is from 6.5 to 6.9 percent; i.e., the interval $6.7 \pm (1 \times 0.2)$ percentage points. Thus, we can say with about 68 percent confidence that this interval includes the actual value that would have been obtained by averaging the results from all possible samples of this type. Similarly, we would conclude that the average estimate, derived from all possible samples, lies within the interval from 6.3 to 7.1 percent, $6.7 \pm (2 \times 0.2)$, with 95 percent confidence. The standard errors for other figures in this release are given in the tables.

In addition to sampling error, the figures in this release, both the estimates and their standard errors, are also subject to rounding error. Changes in the figures discussed in this release are described as "not statistically different" when they are not significant with 90 percent confidence, and are described as showing "some evidence of difference" when significant between 90 to 95 percent confidence, and "different" when significant with 95 percent confidence or greater.

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Item 4

United States Senate
SPECIAL COMMITTEE ON AGING
WASHINGTON, DC 20510

August 4, 1986

Mr. John Knapp
Acting Under Secretary
U.S. Department of Housing and
Urban Development
451 Seventh Street, S.W.
Washington, D.C. 20410

Dear Mr. Knapp:

As a follow-up to this Committee's February 21 hearing on the impact of Gramm-Rudman-Hollings cuts on services to older Americans, we are writing to request your responses to several additional questions.

It has been 5 months since the first Gramm-Rudman-Hollings sequester took effect. During that time you have had an opportunity to examine the actual impact of these cuts on programs. Therefore, to supplement the excellent testimony you presented to the Committee, we are asking that you provide us with answers to the following questions.

SECTION 202: HOUSING FOR THE ELDERLY

1. What impact have the Gramm-Rudman-Hollings cuts had on the number of housing units HUD expected to build under the 202 program in 1986 and future years?

2. How have these cuts been spread among 202 construction projects? Has the size of each project been reduced, or have some projects been eliminated? Or, are you building the same number of units for less money? Please include a list of projects, if any, that have been eliminated as a result of Gramm-Rudman-Hollings.

If HUD is building the same number of units for less money, has there been any reduction in the quality of construction? If so, please describe.

3. What will these Gramm-Rudman-Hollings cuts mean to older Americans? If there are already some 270,000 people waiting to get into 202 projects, how will waiting lists be affected?

4. What will happen to the 202 program if there is an additional 8% Gramm-Rudman-Hollings sequester in FY 1987?

PUBLIC HOUSING

1. Congress appropriated funds for 5000 units of public housing and the 2000 units of Indian housing to be built in 1986. Has Gramm-Rudman-Hollings cut the number of units by 4.3%, or has the cut come in some other area, such as the size of the units?

2. Funds for maintenance and rehabilitation have also been cut. How has this affected the quality of our housing stock?

3. In New York City alone, around 200,000 people are waiting for public housing. Nationwide, the wait for a public housing unit averages 29 months. Have Gramm-Rudman-Hollings cuts made this situation worse?

4. How will an 8% FY 1987 Gramm-Rudman-Hollings sequester affect the public housing program?

CONGREGATE HOUSING SERVICES PROGRAM

1. How have the cuts in the congregate services program been implemented? Has each demonstration project been reduced? Have any projects been closed entirely? Have meals and services been reduced?

2. Will the cuts in congregate services ultimately be more costly to the federal government, since the program is designed to keep citizens who are "aging in place" out of more costly institutions?

3. Where will the elderly who have been denied access to congregate services now go to obtain similar services?

4. What will happen to congregate services if an 8% Gramm-Rudman-Hollings sequester is implemented in FY 1987?

We intend to include your responses to the above follow-up questions in our print of the hearing's proceedings. Therefore, we request that you respond as soon as possible. We would like to complete this print by August 20, 1986.

Your continued cooperation in this matter is appreciated and we look forward to your responses.

Sincerely,

JOHN HEINZ
Chairman

JOHN GLENN
Ranking Minority Member

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

ASSISTANT SECRETARY FOR
LEGISLATION AND CONGRESSIONAL RELATIONS

Honorable John Heinz
Chairman, Special
Committee on Aging
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for your letter of August 4, 1986, to Mr. Knapp, requesting information additional to that he provided before your Committee hearing on the effect of Gramm-Rudman-Hollings sequestration on certain of our programs. I hope you will accept my apology for the lateness of our response. Our answers are ordered to follow the sequence of questions in your letter.

Section 202: Housing for the Elderly and Handicapped

1. The amount appropriated by the Congress for FY 1986 was cut by 4.3 percent, resulting in a loan limit reduction of $27.1 million, or an expected reduction of approximately 600 units of the 12,000 units anticipated under the amount appropriated. However, utilizing cost containment efforts, the Department actually funded 11,571 new units, thus mitigating the effect of the reduction.

2. The reduction did not affect projects for which funds were already reserved; therefore, projects in the pipeline were not reduced in size or eliminated. Rather, the cuts resulted in fewer units being funded from the new proposals considered for initial funding in FY 1986.

   HUD has been reducing the construction cost of Section 202 units. However, this results from the Administration's policy of cost containment and modest design, rather than because of Gramm-Rudman-Hollings reductions. The Department has eliminated amenities such as saunas, atriums and balconies from new projects, but has retained the same quality of basic construction.

3. Section 202 waiting lists can be expected to grow if fewer units are built.

4. Congress has appropriated $592.7 million for the construction of 12,000 units in FY 1987. An 8 percent sequestration could be expected to reduce this number by 960 units.

Public Housing

1. As a result of Gramm-Rudman-Hollings, FY 1986 appropriations for public housing were cut from 5,000 to 4,803 units; funding for Indian Housing was reduced from 2,000 to 1,921 units.

2. Capital cost funding for modernization and rehabilitation was reduced from $736.4 to $707.4 million. The reduction is expected to have only a minimal impact on the stock.

3. The reduction of 197 units caused by Gramm-Rudman-Hollings will have a very small effect on unmet demand for public housing units nationwide.

4. The Congress has appropriated $200 million of capital cost funding for new construction of public housing in FY 1987, funding for 2,000 units of Indian Housing and $1.4 billion for modernization. These amounts would be reduced by $16 million, 160 units, and $112 million, respectively, if there were an 8 percent sequester.

Congregate Housing Services Program

1. Gramm-Rudman-Hollings cuts in this program were handled by reducing the grant extension periods, e.g. from eight to seven months. No individual projects have been closed or reduced in unit number; nor have there been reductions in the provision of meals and services.

2. The Congregate Housing Services Program (CHSP) is a demonstration program. Although the Congress has continued to appropriate funds for extension of the original grants, an evaluation of the demonstration concluded that it had not proven cost-effective in its purpose, which was to delay or prevent institutionalization in higher-level (and more costly) care facilities of aging people who needed only a much lower level of care.

3. Because CHSP is a demonstration and its continuance has been uncertain, project managers have not actively encouraged participation in the program. In only a few instances has anyone been denied access to a CHSP project or been put on a waiting list.

4. An 8 percent sequester in FY 1987 would probably be handled as it was for FY 1986, i.e. by reduction in the length of grant extensions.

We shall be glad to provide further information upon request.

A similar response has been sent to Senator John Glenn.

Very sincerely yours,

for Thomas D. Casey

Stephen May
Assistant Secretary

JOHN HEINZ, PENNSYLVANIA, CHAIRMAN
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Item 5

United States Senate

SPECIAL COMMITTEE ON AGING
WASHINGTON, DC 20510

August 4, 1986

Mr. Michio Suzuki
Associate Commissioner of State
and Tribal Programs
Administration on Aging
Department of Health and Human Services
300 Independence Avenue, S.W., Room 4282
Washington, D.C. 20201

Dear Mr. Suzuki:

As a follow-up to this Committee's February 21 hearing on the impact of Gramm-Rudman-Hollings cuts on services to older Americans, we are writing to request your responses to several additional questions.

It has been 5 months since the first Gramm-Rudman-Hollings sequester took effect. During that time you have had an opportunity to examine the actual impact of these cuts on programs. Therefore, to supplement the excellent testimony you presented to the Committee, we are asking that you provide us with answers to the following questions.

1. You stated in your testimony that the Administration on Aging (AoA) is committed to building systems that are particularly responsive to the most vulnerable elderly. Department of Health and Human Services (DHHS) officials have indicated that the number of meals and other direct services will be the last items to be reduced. We understand that AoA issued directives to the state units on aging (SUAs) regarding the reductions in the FY 1986 budget. Please provide the committee with a copy of any such directives.

If you have not provided guidance or recommendations regarding reductions in costs or services, do you plan to provide such guidance in the future? If so, please describe the nature of the anticipated guidance.

2. Sequestration has resulted in an $11 million cut in supportive services for the elderly (e.g. legal services, transportation, senior centers, counseling, investigation of nursing home complaints). Please describe the reduction in these and other services that has or will occur as a result of this $11 million cut.

How many older Americans have been or will be denied services?

Have (or will) any particular services be more adversely affected than others?

3. You stated in your testimony that the 4.3% reduction due to sequestration is relatively small and that AoA's management initiatives (e.g. increased productivity, participant contributions) would "offset the impact of these reductions to a great degree." Please describe the degree to which you expect the reduction in services to be offset by the AoA's various initiatives.

Do the state and area agencies on aging agree with your position that such initiatives will offset reductions to Gramm-Rudman-Hollings?

What has the AoA done or what does it plan to do to determine the viewpoints of the state and area agencies on aging about the expectation that Gramm-Rudman-Hollings reductions would be offset by management initiatives?

4. In your testimony, you said that it is AoA's "expectation that services essential to the maintenance of independent living will continue to receive a high priority and that other less critical services will be reduced."

Which specific services does AoA deem to be these critical services and which are considered "less critical" services?

How is the AoA communicating this to the state and area agencies on aging and to those who provide Older Americans Act funded or supported services?

How has the AoA monitored the state and area agencies to ensure that this expectation is met?

What has been the role of the regional offices in providing oversight and monitoring to ensure that this expectation is met?

How have these roles been provided in the two regions where the AoA is experimenting with absorbing regional office functions into the regional DHHS offices (i.e. Chicago and New York)?

5. You stated that "In 1987, the Administration's budget proposal is to return aging service programs to the 1985 level." According to the DHHS budget released February 5, the Budget Authority for your programs will be $689 million, which is $13 million less than the $702

million in FY 1985. Please clarify your statement which appears to be inconsistent with information available from the DHHS.

NUTRITION SERVICES

1. The sequester for congregate and home delivered meals in FY 1986 totals about $18 million. How many meals have been cut as a result? Have the number of meals served to each beneficiary been reduced, or have the number of beneficiaries been reduced, or both? How has this been handled?

2. What has happened to the people who did not receive these meals? For instance, would a homebound elderly woman with arthritis be able to obtain meals that provide one-third of the daily nutritional requirements through some other source?

3. If these older Americans cannot physically go elsewhere or do not find these meals available elsewhere, do you think the likelihood that they may fall ill and require other services, which may also be cut, will be increased?

4. Have there been or will there be additional reductions in meals because of the sequestration of Department of Agriculture Title III commodity funds? How many meals have been or will be cut?

TITLE IV: RESEARCH, TRAINING AND DISCRETIONARY PROJECTS

1. The Administration proposed a 52% decrease in funding for research, training and other discretionary purposes which is a dramatic decrease. Specifically, how would such a reduction occur?

Would contracts currently in effect be reduced? If so, which contracts have been, or will be, reduced?

What contracts or awards would not be made that were otherwise planned?

2. Has the reduction in this category, through the Gramm-Rudman-Hollings cut, had any impact on the legal-services related awards currently in effect or anticipated for the balance of FY 1986 or in FY 1987?

3. Have contractors of Title IV funds received notices concerning the reductions? If so, please provide us with a copy.

4. What research, training and discretionary projects were reduced as a result of Gramm-Rudman-Hollings?

OTHER SERVICES

We are concerned about the impact of reductions in Older Americans Act funds on the Long-Term Care Ombudsman program, which is one of the few OAA services that directly benefits the nation's institutionalized elderly. Earlier hospital discharges due to the Medicare prospective payment system are clearly having an impact upon post-hospital care services such as nursing homes and board and care facilities, where oversight by ombudsmen will be even more crucial.

Has there been any reduction in funds or other resources provided to state or substate ombudsman programs? If so, please describe the extent and nature of this reduction, including anticipated reductions in services provided by the ombudsman program.

Is the ombudsman program considered a high priority or "less critical" service by the AoA?

Specifically, what effort is underway by the AoA to identify any reductions in the levels of ombudsman program funding or services, or is planned for the future?

AOA ADMINISTRATION

1. Has AoA been asked to absorb a greater percentage of reductions in operating funds or staffing than any other programs within the Office of Human Development Services?

2. Were there any reductions in AoA staff in FY 1985, either in actual positions or full-time equivalencies?

3. Have there been any staffing reductions in FY 1986 or are any anticipated during the balance of FY 1986?

4. Are there any current vacant positions that will not be filled?

5. If there have been any staffing reductions, if staffing reductions are anticipated, or if any vacancies

will not be filled, what program areas have been or would be affected by these reductions?

6. Are there any plans to reduce staff in AoA's regional offices or further plans to consolidate any regional offices? If so, please describe these plans.

7. Have AoA's travel funds been reduced from the FY 1985 level? Have any of AoA's travel funds been redirected to other programs or efforts with OHDS or DHHS? If so, what is the justification for travel funds reductions or redirection? What travel-related activities have been or will be reduced or eliminated as a result of these reductions?

It is our understanding that requests from state and area agencies on aging to AoA, including the regional offices, for assistance and opinions are going unanswered or are not being responded to for lengthy periods. Will FY 1986 reductions have any further impact on this situation? What is AoA doing to try to respond to these requests in a more timely fashion?

We intend to include your responses to the above follow-up questions in our print of the hearing's proceedings. Therefore, we request that you respond as soon as possible. We would like to complete this print by August 20, 1986.

Attached are questions that Senator Bradley would like you to answer for the record.

Your continued cooperation in this matter is appreciated and we look forward to your responses.

Sincerely,

JOHN HEINZ
Chairman

JOHN GLENN
Ranking Minority Member

QUESTIONS SUBMITTED FOR THE RECORD BY SENATOR BILL BRADLEY
TO THE ADMINISTRATION ON AGING
February 21, 1986

Prior to passage of Gramm-Rudman, how many Meals-on-Wheels were supposed to be delivered this year? How does this compare to 5 years ago? Over the past 5 years, how does the number of meals delivered compare to the appropriations for this program?

- How has the cost per meal changed over the past 5 years? Have Area Agencies on Aging become more efficient over time in providing meals at a lower cost?

- Given the first "sequester," how many fewer meals will be served this year than originally planned?

- If the Fall sequester takes place, and funding is reduced by roughly 20%, what will be the impact on Meals-on-Wheels?

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of
Human Development Services

Office of Assistant Secretary
Washington D.C. 20201

OCT 1 1986

The Honorable John Heinz
Chairman
Senate Special Committee on Aging
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am enclosing the answers to the specific questions which you and Senator Bradley raised on the impact of the Gramm-Rudman-Hollings sequester on the programs of the Administration on Aging. I was pleased to have Michio Suzuki represent AoA at your February hearing on this subject, and I hope that this information will both supplement and update his testimony.

If you have any questions on this material, or if you wish more information, please let me know. I look forward to our continued cooperative efforts to survey the impact of this important new law on older Americans.

Sincerely,

Carol Fraser Fisk
Commissioner on Aging

Enclosures

GENERAL

1. Please supply the committee with a copy of any directives which AoA issued to the state units on aging regarding the reductions in the FY 1986 budget.

If you have not provided guidance or recommendations regarding reductions in costs or services, do you plan to provide such guidance in the future? If so, please describe the nature of the anticipated guidance.

- o No directives were issued by the Administration on Aging to State Agencies on Aging regarding the 4.3% reduction. Directives are issued to the States only on matters involving compliance with law and regulation, not on the manner in which they should specifically spend funds which is an issue best dealt with by each local jurisdiction.

- o In January 1986, when the Administration on Aging received final Departmental guidance on the impact of Gramm-Rudman-Hollings, new grants allotting the full amount available to each State were immediately issued.

2. Please describe the reduction in supportive services for the elderly (e.g. legal services, transportation, senior centers, counseling, investigation of nursing home complaints) and other services that has or will occur as a result of this $11 million cut because of sequestration. How many older Americans have been or will be denied services? Have (or will) any particular services be more adversely affected than others?

- o Area agencies on aging determine the manner in which the Title III funds will be allocated at the local level. Any specific changes in service levels in a particular planning and service area would be determined by the local area agency on aging in conjunction with the State Unit on Aging. That sub-State data is not reported at the national level.

- o The AoA Title III information system collects data on service units and client counts on an annual basis only. Data for FY 1986 will not be available to us until early December. Upon receipt, we will begin analysis. In response to your request for data, we queried our regional offices for information which States could share informally and voluntarily. We found that most States do not collect program data quarterly, and only 13 States had data they could share. Analysis of the data shared by States shows that the number of persons served for social services and meals remained about the same through the third quarter of FY 1986 as it had been through that period of FY 1985.

3. Please describe the degree to which you expect the reduction in services, due to the 4.3% reduction because of sequestration, to be offset by the AoA's various management initiatives.

- o The management initiatives cited in the February 21 testimony were improvements in productivity, increased contributions, and USDA reimbursements.

- o We will not have any FY 1986 data on improvements in productivity until the end of the fiscal year.

- o Program income reported through the third quarter in FY 1986 was $108.9 million, compared to $96.7 million through the third quarter in FY 1985. This represents a 13% increase over the FY 1985 level and a return on the Title III dollar of 25%, compared to about 21% in FY 1985.

- o The funds available from USDA increased in FY 1986. The appropriation for Title III meal reimbursement for FY 1985 was $120.8 million, plus an additional $6.2 million supplement; the appropriation for FY 1986 was $131.1 million, supplemented by an additional $2.3 million. The reimbursement rate per meal held at about 56¢, rather than dropping to 53¢ as USDA had earlier projected. Currently, USDA projects a reimbursement rate of 57¢ for FY 1986.

- o In addition, we do have information from several States on pooling of non-title III funds (to use for Title III purposes). For these States, the total amount of funds outside Title III and Title III-match was 18% higher as of the third quarter of FY 1986 than at the same time in FY 1985. Anecdotal information indicates that at least four States put new resource generating strategies into effect. These included special appropriations by the State legislature specifically for home-delivered meals, further tapping of local funds, and use of some FY 1985 funds carried over into FY 1986.

Do the state and area agencies on aging agree with your position that such initiatives will offset reductions to Gramm-Rudman-Hollings.

- o States, AAAs, and our elderly participants have been very resourceful in cutting costs and increasing contributions to limit the impact of diminished resources.

What has the AoA done or what does it plan to do to determine the viewpoints of the state and area agencies on aging about the expectation that Gramm-Rudman-Hollings reductions would be offset by management initiatives?

- The Administration on Aging has frequent contact with membership organizations such as the National Association of State Units on Aging (NASUA), the National Association of Area Agencies on Aging (N4A), and the National Association of Regional Councils of Government. These organizations help to keep us informed of progress and problems with national program initiatives. We also receive direct mail and telephone communications from staff and program participants. In addition, I have initiated a series of meetings in each Region where I will come into direct contact with nearly all SUA directors, and most AAA directors. I also participated in the national membership meetings of NASUA and N4A in August of 1986.

4. Which specific services does AoA deem to be those critical services which will continue to receive a high priority because they are "essential to the maintenance of independent living", and which are considered "less critical" services which will be reduced?

- The SUA's and AAA's make the final decisions about which services will be developed and provided through the Older Americans Act in each planning and service area.

- Our information shows that the aging network is putting increased emphasis on using all community resources, not just Older Americans Act funds to develop critical family and community based care. Thus, services which make a critical difference in whether or not an elderly person must leave a family and/or community setting and enter a nursing home become important in that they apply to acute situations. Some of the services which can prevent or delay institutionalization are homemaker service, respite care, adult day care, and home-delivered meals.

- It appears that this change has not caused the supply of "less critical" services, such as group socialization and life enrichment activities to diminish in quality or availability. We see a continuing role for AoA, the SUA's and the AAA's in encouraging the development and improvement of these group socialization services.

How is the AoA communicating this to the state and area agencies on aging and to those who provide Older Americans Act funding or supportive services?

- AoA has a formal system of program issuances which convey policy and other useful information to SUA's and AAA's. We also publish Aging magazine, which highlights current issues, trends, new ideas, and outstanding programs for the elderly.

- AoA regional offices have regular contacts with SUA's, AAA's, and service providers. They frequently convene training conferences to support AoA initiatives and assist the aging network in the development of services improvement and management strategies.

AoA uses the research, demonstration, and training provided under Title IV of the of the Older Americans Act to assist all levels of the aging network to develop and understand the full range of service options and best practice approaches for assisting the elderly.

- In addition, I have continuing direct contact with persons throughout the aging network through speaking engagements, membership meetings, and working sessions at the Regional level with SUA and AAA directors.

How has the AoA monitored the state and area agencies to ensure that this expectation is met?

- AoA receives periodic formal reports on financial and program progress from each SUA. These reports contain information about AAA's and social services provided. The reports are an important starting point for monitoring SUA implementation of the Older Americans Act. The AoA regional offices discuss requirements related to the Older Americans Act with the SUA's and make observations by telephone, in meetings and, at times, on site. The SUA's in turn monitor the AAA's, and the AAA's monitor the performance of the service providers.

What has been the role of the regional offices in providing oversight and monitoring to ensure that this expectation is met?

- The regional offices carefully review the reports provided by the States on program performance. The reports are fully discussed with the States. The regional offices are important in monitoring the program because of their detailed knowledge of State operations and contact with State staff on specific program issues.

How have these roles been provided in the two regions where the AoA is experimenting with absorbing regional office functions into the regional DHHS offices (i.e. Chicago and New York)?

- Reporting lines have changed for staff in Chicago and New York, but expectations for monitoring and assisting states have not changed. The Commissioner on Aging retains direct control over AoA funds and functions. AoA central office maintains the same substantive contact with these regions as it does with the other regions.

5. You stated that "In 1987, the Administration's budget proposal is to return aging service programs to the 1985 level." According to the DHHS budget released February 5, the Budget Authority for your programs will be $689 million, which is $13 less than the $702 million in 1985. Please clarify your statement which appears to be inconsistent with information available from the DHHS.

- The 1987 level is the same as that appropriated for fiscal year 1985 for the "services" portion of the Administration on Aging's budget request. The $13 million difference is in the Title IV Research and Discretionary Projects and Programs portion of the budget. The request for the "services" portion of the budget--i.e., supportive services, nutrition programs, and grants to Indian Tribes is the same as that appropriated for fiscal year 1985. The lower level requested for the discretionary activities is consistent with Office of Human Development Services policy to maintain support for direct services activities by reducing lower priority, non-direct services activities.

NUTRITION SERVICES

1. The sequester for congregate and home delivered meals in FY 1986 totals about $18 million. How many meals have been cut as a result? Have the number of meals served to each beneficiary been reduced, or have the number of beneficiaries been reduced' or both? How has this been handled?

- The only specific national information on number of meals which is collected on a quarterly basis is the count reported to USDA for purposes of reimbursement. As of the third quarter of FY 1986, 167,908,342 meals were reported to USDA for reimbursement, compared to 165,719,763 through the third quarter in FY 1985. This is an increase of nearly 2.2 million meals, or about 1.3% more than reported at this point in FY 1985.

2. What has happened to the people who did not receive these meals? For instance, would a homebound elderly woman with arthritis be able to obtain meals that provide one-third of the daily nutritional requirements through some other source?

- Area Agencies on Aging are making every effort to assure that the most vulnerable elderly persons will continue to receive nutrition and supportive services. In those instances where an elderly person is not able to receive a meal funded under Title III, the Area Agency on Aging will explore the resources available from, and work with, private and local non-profit organizations that provide nutrition services to older people. Let me assure you that we are committed to work with organizations serving the elderly to assure that older people are linked to services. Our goal is to assure that all community resources, not just Title III, are being used to respond to the needs and challenges posed by our aging society.

3. If these older Americans cannot physically go elsewhere or do not find these meals available elsewhere, do you think the likelihood that they may fall ill and require other services, which may also be cut, will be increased?

- We are aggressively continuing our efforts to build a stronger, more comprehensive, community-based system of care which responds to the needs of older people, particularly those at risk of losing their independence. State and Area Agencies on Aging are working cooperatively with organizations committed to linking and coordinating programs for the elderly that are supported from a variety of Federal, State, and local funding sources. These expanded efforts ensure a more effective and efficient system of care--one that is highly visible, easily accessible, and which provides an immediate and appropriate response to the service needs of older persons, particularly the vulnerable elderly.

4. Have there been or will there be additional reductions in meals because of the sequestration of Department of Agriculture Title III commodity funds? How many meals have been or will be cut?

- No meals have been, or are expected to be, cut in FY 1986. As of the end of the third quarter, meals reported to USDA had increased by 1.3% over the third quarter in 1985 to 167,908,342, and the reimbursement rate has remained the same as last year (56¢). Funds available from the Department of Agriculture for meal reimbursements increased rather than decreased in FY 1986.

TITLE IV: RESEARCH, TRAINING AND DISCRETIONARY PROJECTS

1. The Administration proposed a 52% decrease in funding for research, training, and other discretionary purposes which is a dramatic decrease. Specifically, how would such a reduction occur? Would contracts currently in effect be reduced? If so, which contracts have been, or will be, reduced? What contracts or awards would not be made that were otherwise planned?

- The funding reduction proposed for FY 1987 in Title IV research, training, and demonstration programs will have a minimal effect on current projects. Only a modest number of Title IV projects are scheduled for continuation funding in FY 1987. Their continuation costs can be met readily within the the proposed $12,500,000 budget. Those projects will, however, be reviewed for evidence of satisfactory progress before being funded. Budget cuts in continuation projects, if any, will be made on a case-by-case basis.

- New awards in FY 1987 will be fewer than in previous years under the proposed Title IV funding reduction. But the subject area priorities under which AoA invites R&D and Training project applications will remain intact. With continued careful selection of grant awards, and more effective use of Title IV project findings and products, the quality of the research, training, and demonstration programs can be maintained.

2. Has the reduction in this category, through the Gramm-Rudman-Hollings cut, had any impact on the legal services-related awards currently in effect or anticipated for the balance of FY 1986 or FY 1987?

- The reduction in Title IV funding in FY 1986 resulting from the Gramm-Rudman-Hollings sequestration has not had any material effect on the priorities established for Title IV research, demonstration, and training programs, including the category of legal assistance projects for older persons. For FY 1987, these program priorities will be sustained but Gramm-Rudman-Hollings funding cuts will curtail the number of awards made.

- AoA has assisted in the development of legal services to older persons through support of several projects. In one project the American Bar Association (ABA) is organizing private bar associations to provide pro bono and reduced fee programs for older persons. Under this AoA support, the ABA has been working for the past several years with State and local bar association projects and with other groups to develop such programs. Increasingly, we are seeing the proliferation of such projects and we expect this trend to continue. Bar associations in over 30 States have established committees to develop pro bono programs and provide leadership to resolve the legal problems of older persons.

- In addition to the ABA project, AoA is currently supporting projects by the National Senior Citizens Law Center, the American Association of Retired Persons/Legal Counsel for the Elderly, and the Center for Social Gerontology. Through these projects, State and Area Agencies on Aging and local providers of legal services to the elderly receive training and technical assistance.

- AoA is also supporting two demonstration projects which are testing the feasibility of a legal services hotline and the use of a law school clinic to provide legal services to older persons.

3. Have contractors of Title IV funds received notices concerning the reductions? If so, please provide us with a copy.

- Title IV project grantees have not received notices concerning any cuts in their current budgets. Budget levels for continuation projects have always been, and will continue to be, subject to such factors as the availability of funds and satisfactory project performance.

- As a result of the 4.3% Gramm-Rudman-Hollings reduction in funds, marginally fewer grants than anticipated have been awarded.

4. What research, training and discretionary projects were reduced as a result of Gramm-Rudman-Hollings?

- No research, training, and other Title IV discretionary projects have had their budgets reduced as a result of Gramm-Rudman-Hollings.

- As a result of the 4.3% Gramm-Rudman-Hollings reduction in funds, marginally fewer grants than anticipated have been awarded.

OTHER SERVICES

1. Has there been any reduction in funds or other resources provided to state or substate ombudsman programs? If so, please describe the extent and nature of this reduction, including anticipated reductions in services provided by the ombudsman programs

- Section 304(a) of the Older Americans Act requires all States to use an amount equal to at least one percent of its Title III-B allotment or $20,000, whichever is greater, for the ombudsman program. Each State Agency on Aging determines what portion of its Title III-B funds, beyond the minimum requirement, will be expended for the ombudsman program. Many State and Area Agencies have obtained additional funds from other resources to help support the program.

- In FY 1984, the total funding from State and other sources for Ombudsman Programs nationwide was $14,302,102. The State reports submitted for FY 1985 indicated a total funding level for both State and local programs of $18,553,833. The FY 1985 figure signifies a $4 million or 29 percent increase over the FY 1984 figure. The FY 1985 reports indicated a total funding level from all sources of $10,408,645. The FY 1984 amount represents a 37 percent increase over FY 1985. Since these data are only available annually, we will not have information for FY 1986 until mid-1987.

2. Is the ombudsman program considered a high priority or "less critical" service by the AoA?

- AoA is placing an ever greater emphasis on ensuring the development of a full continuum of care service system in every community. This emphasis includes greater attention to building linkages with the health community and to strengthening relationships with both acute and long term care institutions. The Long Term Care Ombudsman program is a key element in working with long term care facilities. State and Area Agencies will look to the ombudsman to help build these linkages. AoA will place an increased emphasis on ensuring Statewide access to the ombudsman program. We believe that quality institutional care, like quality in-home and supportive services needs to be a part of an effective community system of services for Older Americans wherever they live.

3. Specifically, what effort is underway by the AoA to identify any reductions in the levels of ombudsman program funding or services, or is planned for the future?

- AoA has no plans to reduce the level of funding for the ombudsman program. The recent 4.3 percent reduction in Title III-B supportive services may affect State decisions about what portion of these funds are devoted to the ombudsman program, but accurate information regarding the FY 1986 funding level will not be available until mid-1987; therefore, we are unable to determine what changes may take place as result of the 4.3 percent Title III-B reduction.

- Since AoA is giving greater program emphasis to the needs of vulnerable older persons, we anticipate a stronger, more effective ombudsman program. Given the trends previously noted for increased funding of the program since 1982, we expect the program to expand, rather than diminish in spite of the 4.3 percent reduction in Title III-B funds. AoA is exploring other potential program initiatives to address concerns about improving the quality of care provided older persons in institutional settings.

- In an attempt to strengthen the ombudsman program, we are working with the HCFA Office of Survey and Certification to plan joint activities for improving the communications between the State Licensing and Certification program and the State ombudsman program. We are exploring opportunities for sharing information and reports, including establishing periodic meetings to exchange information.

HOME-DELIVERED MEALS

1. Prior to passage of Gramm-Rudman, how many Meals-on-Wheels were supposed to be delivered this year? How does this compare to 5 years ago? Over the past 5 years, how does the number of meals delivered compare to the appropriations for this program?

- The FY 1987 budget request estimated that 220,642,262 meals would be provided under Title III-C in FY 1986; no breakout was made of congregate vs. home-delivered meals. However, in FY 1985, 75,539,259 home-delivered and 149,875,805 congregate meals were actually served.

- The following meals were served from FY 1981 through 1985:

Amount Available for meals	1981 $348,857,000	1982 $341,064,000	1983 $359,499,000	1984 367,279,000	1985 $367,018,734
Meals	187,877,884	190,849,919	202,569,488	214,159,193	225,415,064
Home-delivered	45,283,802	50,528,695	57,518,472	66,710,527	75,539,259
Congregate	142,594,082	140,321,224	145,051,016	147,448,666	149,875,805

- After the sequester, $367,920,075 was available for congregate and home-delivered meals.

- Home-delivered are also provided in great numbers by a wide range of non-profit organizations and volunteer groups. It is impossible for AoA to record this level of important community support to home-delivered older Americans.

2. How has the cost per meal changed over the past 5 years? Have the Area Agencies on Aging become more efficient over time in providing meals at a lower cost?

- Analysis of the ratio between total meals served and total Title III-C funds, after transfers, shows a trend over the past five years toward less reliance on Title III. This suggests a combination of improvements, including increased efficiency in managing, income from client contributions, and more non-Title III resources generated. The amount of Title III funds required to produce one meal is calculated as follows:

FY 1981 (est.)	$1.86
FY 1982	1.79
FY 1983	1.71
FY 1984	1.71
FY 1985	1.69

- Final information for FY 1986 will be required in order to estimate the Title III share per meal for this fiscal year.

3. Given the first "sequester," how many fewer meals will be served this year than originally planned?

- As stated earlier, as of the third quarter of FY 1986, 167,908,342 meals were reported to USDA for reimbursement. This was an increase of 1.3% over the number reported at the same time in FY 1985. At this time we do not expect a decrease in meals in FY 1986.

- Our informal survey of thirteen States showed that the number of persons served increased about 4% for social services, decreased about 5% for congregate meals, and increased about 4% for home-delivered meals.

- These numbers, while not providing a true national picture, are consistent with the national trend toward greater use of the States' authority to transfer funds out of congregate meals in order to fund more home-delivered meals and social services.

4. If the Fall sequester takes place, and funding is reduced by roughly 20%, what will be the impact on Meals-on-Wheels?

- Some of the impact of any sequester would be lessened by AoA-assisted improvements in meal productivity, increased contributions, and through the USDA reimbursement. In addition, individual States and localities may use their transfer authority to fund more meals, pool non-Title III resources to provide more meals, or develop new revenue producing strategies. Again, changes in government funding may or may not impact on the large number of meals provided by non-profit groups and volunteer efforts.

AoA ADMINISTRATION

1. Has AoA been asked to absorb a greater percentage of reductions in operating funds or staffing than any other programs within the Office of Human Development Services?

- AoA has not been asked to absorb a greater percentage of reductions in operating funds or staffing than any other programs within the Office of Human Development Services. Current efforts are to distribute funding and staffing reductions equitably among program units so that, in spite of a general hiring freeze instituted in order to stay within available funds, negative impact will not be created on any one operation.

2. Were there any reductions in AoA staff in FY 1985, either in actual positions or full-time equivalencies?

- AoA experienced no involuntary reductions during FY 1985. Attrition accounted for a loss of 20 staff members. AoA, along with all of HDS, has been under a hiring freeze for approximately two years in order to meet FTE ceilings by attrition rather than by reduction-in-force or furlough.

3. Have there been any staffing reductions in FY 1986 or are any anticipated during the balance of FY 1986?

- During FY 1986, attrition in AoA staff accounted for a loss of 13 staff members. (This number includes those who have already left and those for whom a release date has been given.) During that period, there were three accessions to AoA. We do not anticipate any further losses or gains before September 30, 1986.

4. Are there any current vacant positions that will not be filled?

- The Administration on Aging is currently under a hiring freeze. Consequently we do not expect to be hiring any staff outside the agency in the near future.

5. If there have been any staffing reductions, if staffing reductions are anticipated, or if any vacancies will not be filled, what program areas have been or would be affected by these reductions?

- No program areas have been identified for formal reductions; however, we have moved staff members among program areas when critical sets of skills were lost in a particular program area, or when a serious imbalance of clerical support occurred.

6. Are there any plans to reduce staff in AoA's regional offices or further plans to consolidate any regional offices? If so, please describe these plans.

- o There are no such plans at this time.

7. Have AoA's travel funds been reduced from the FY 1985 level? Have any of AoA's travel funds been redirected to other programs or efforts with OHDS or DHHS? If so, what is the justification for travel funds reductions or redirection? What travel-related activities have been or will be reduced or eliminated as a result of these reductions?

- o Because of reductions in Salaries and Expenses for HDS in FY 1986, there was less money available for travel after meeting salary costs. Therefore, AoA travel funds were reduced from the FY 1985 level as were travel funds for all HDS components. AoA travel funds have not been redirected to other programs or efforts within OHDS or DHHS. In fact, additional travel money was made available to AoA during the year so that the agency could carry out high priority travel. Reductions in travel were accomplished by consolidating trips, limiting the number of staff per trip, and by prioritizing the selection of site visits. Even with limited travel resources, AoA was able to carry out its programmatic priorities and responsibilities.

8. It is our understanding that requests from state and area agencies on aging to AoA, including the regional offices, for assistance and opinions are going unanswered or are not being responded to for lengthy periods. Will FY 1986 reductions have any further impact on this situation? What is AoA doing to try to respond to these requests in a more timely manner?

- o We are not aware of a backlog of written policy and assistance requests from SUAs. In general, service providers are assisted through AAAs, and SUAs provide guidance and assistance to the AAAs. Therefore, we have instructed our regional offices to focus most of their resources on SUAs and Indian tribes.

- o The timeliness of responses is being monitored, and is a standard element in the performance appraisal of almost all AoA employees. We consider timeliness a very serious issue and will continue to try to upgrade our performance.